



SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

Understanding the Finances of the Government

**2008 Report
Volume 2**





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ISSN 0581-8214

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Vision

We envision effective, open, and accountable government.

Mission

We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.



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SASKATCHEWAN

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August 27, 2008

The Honourable D. Toth
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2008 Report - Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

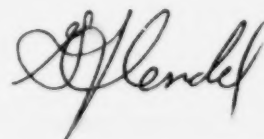
Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Foreword

I am pleased to present my *2008 Report – Volume 2* to the Legislative Assembly. This Report focuses on understanding the Government's finances. Later this year, I will present Volume 3. Volume 3 will include the results of our work at government organizations with a fiscal year end of March 31, 2008.

A handwritten signature in black ink, appearing to read 'F. Wendel', with a stylized, cursive script.

Regina, Saskatchewan
August 27, 2008

Fred Wendel, CMA, CA
Provincial Auditor

Understanding the Finances of the Government

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Understanding the Finances of the Government

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Executive summary

For the year ending March 31, 2008, the Government's financial condition improved significantly.

In 2008, the Government had a record annual surplus of almost \$1.9 billion that was about \$2.6 billion more than the Government expected. This large surplus helped the Government reduce its net debt to a record low of \$5.8 billion in 2008. Its net debt as a percentage of provincial GDP declined to a record low of 11%.

Interest bite (interest costs as a percentage of revenue) has also declined to a record low of 7%. However, the total amount the Government owed at March 31, 2008 of \$14.6 billion was only slightly down from \$15.4 billion in 1994. In 2008, interest costs of just over \$800 million remained sizable as the Government's fourth largest expense after health, education, and social services and assistance.

The Government's infrastructure (tangible capital assets) has aged a bit faster than their replacement. At March 31, 2008, the Government's infrastructure was about halfway through their useful lives. So that infrastructure is available to deliver its services, the Government must carefully manage their maintenance and replacement based on expected needs.

Over the last fifteen years, the Government's revenue demand placed on the economy remained static as a percentage of GDP. In 2008, revenues increased by almost 20% from the prior year to about \$12 billion. This increase was primarily because of higher non-renewable resources revenues.

The 2008 dramatic increase in revenue shows Saskatchewan's revenues can be volatile. This volatility makes careful control of increases in government spending vital because it is difficult to reduce or eliminate established services if a downturn in the economy occurs. The Government needs a strong financial condition to withstand potential swings in its revenues.

The Government, when compared to other provincial governments, has fallen behind in reporting on the financial affairs of the entire Government. The Government continued its focus on an incomplete financial picture—the General Revenue Fund—as opposed to the entire government. In recent years, other provincial governments increasingly use their summary financial results as the principal means to show their accountability for the entire government. The Government's current financial reporting practices create confusion for legislators and the public. Legislators and the public become uncertain as to which information to use to judge the Government's financial performance.

Summary of key financial and economic indicators for Saskatchewan

(derived from the Government's summary financial statements)

(in millions of dollars)

	Key	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Annual surplus (deficit)	1	-281	141	563	545	326	69	406	481	-483	-654	-100	844	679	574	1,873
Annual (deficit) - budgeted	2, 4					N/A							-284	-173	-113	-701
Net Debt	1	10,758	10,627	10,056	9,511	9,185	9,108	8,702	8,248	8,735	9,305	9,318	8,487	7,761	7,318	5,765
Net Debt - budgeted	2, 4					N/A							9,917	8,945	8,271	8,751
Gross Domestic Product (GDP)	3	22,904	24,716	26,791	29,238	29,377	29,550	30,929	33,765	33,222	34,498	36,821	40,462	42,640	45,822	50,961

(in percentages)

	Key	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Debt as a % of GDP	1.3	47	43	38	33	31	31	28	24	26	27	25	21	18	16	11
Own-source revenue as a % of GDP	1.3	18	19	20	18	19	18	18	18	16	18	17	18	19	18	19
Interest Costs as a % of revenue	1	23	22	20	20	19	18	14	13	13	12	12	10	9	8	7
Net book value of tangible capital assets as % of cost of tangible capital assets	1.4	N/A							57.3	55.3	55.0	54.3	52.9	52.3	51.9	51.9
Federal Government transfers as a % of own-source revenue	1	37	33	19	16	12	21	27	17	28	23	20	28	18	19	18

Key:

1. Information derived from the Government's summary financial statements for the fiscal year ending March 31.
2. Information from Government of Saskatchewan Budget and Performance Plan Summary for the fiscal year ending March 31.
3. GDP statistics reflect the most recent calendar year as published by Saskatchewan Bureau of Statistics (www.stats.gov.sk.ca). Comparatives are those produced in previous reports. Statistics are not available for twelve-month periods ending March 31. GDP statistics are not adjusted for inflation (commonly referred to as nominal GDP).
4. N/A means data is not available.

Introduction

The Government's audited Summary Financial Statements report on the performance of the entire Government.

Information in this report is provided to enhance readers' understanding of the Government's audited Summary Financial Statements and its financial condition. The report explains the financial condition of the Government for the year ending March 31, 2008 providing interprovincial comparisons where possible.

Our Office recognizes the value of governments providing legislators and the public with strong public reporting. Through strong public reports, governments can make their operations clear and understandable. Strong public reports help legislators and the public hold governments accountable. As such, this report describes the importance of the Summary Financial Statements. It also looks at the nature and extent of information the Government published to aid legislators' and the public's understanding and assessment of the Government's overall performance.

Understanding the Government's 2007-08 financial condition

A government's financial condition reflects its financial health. Information about a government's financial condition provides insight into a government's management of its financial affairs and its performance.

This section describes the Government's financial condition using the Canadian Institute of Chartered Accountant's three categories of sustainability, flexibility, and vulnerability.¹ It describes each category and its related indicators (in colour).

For each indicator, this section provides trend data for Saskatchewan, highlights key trends, and, for selected indicators, compares information for Saskatchewan to that of other provinces (where information is available).

The Government's Summary Financial Statements provide the basis for the financial information used in this report. Also, this report uses key

¹ Canadian Institute of Chartered Accountants. (1997). *Indicators of Government Financial Condition*. This research report is available from the CICA website at www.cica.ca. (Accessed July 8, 2008).

financial information from summary financial statements of other provincial governments. As current year data is not available from all provinces at the time of writing this report, the report uses prior year data when making interprovincial comparisons.

Appendix 1 provides a glossary of key terms used throughout this report. Appendix 2 sets out additional financial information and analyses in the form of questions and answers. Appendix 3 details the sources of information, the methods used to collect and present the information, and the limitations of the information presented in this report. Appendix 4 details revenues and expenses from 1991 to 2008.

Sustainability

Sustainability measures the ability of a government to meet its existing program commitments and creditor requirements without increasing its net debt.

Looking at trends for the following indicators provides useful insight into the sustainability of a government's revenue-raising and spending practices:

- ♦ a government's annual surplus or deficit
- ♦ a government's spending
- ♦ a government's net debt
- ♦ a province's gross domestic product (GDP)

Annual surplus or deficit

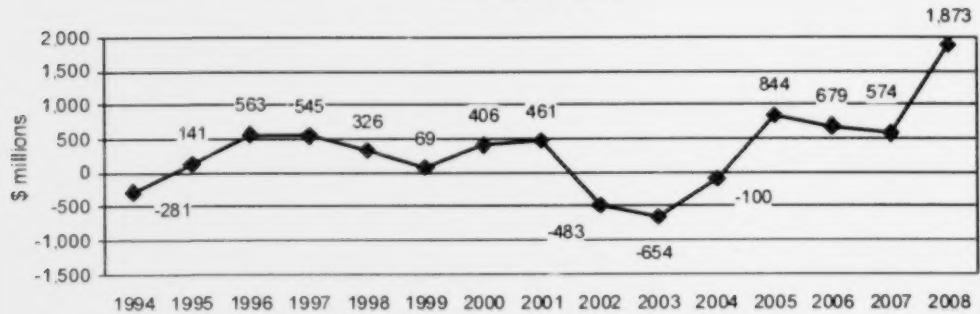
The **annual surplus or deficit** shows the extent to which a government spends less or more than it raises in revenue in one fiscal year. It shows whether a government is living within its means. An annual surplus means a government has lived within its means, whereas an annual deficit means it has not.

Continued annual surpluses have helped the Government provide services while giving it an opportunity to reduce its borrowing.

The annual surplus for the year ending March 31, 2008 was \$1,873 million. Graph 1 shows the Government's annual surpluses or deficits for the last fifteen years. The Government has lived within its means for eleven of those fifteen years (that is, the Government raised more revenue than it spent in the year).

Graph 1

The Government's annual surplus or deficit
from 1994 to 2008



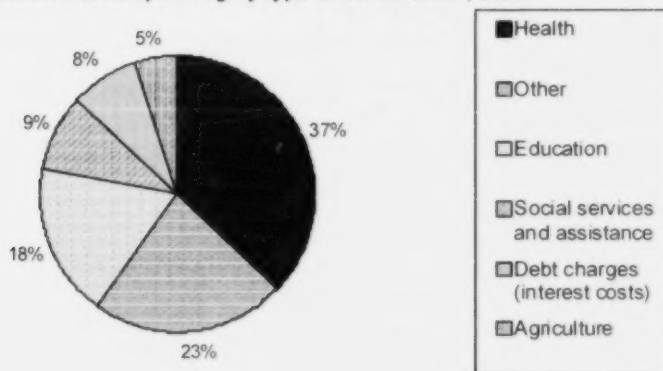
The 2008 annual surplus is almost \$1.3 billion more than the prior year and over \$1 billion more than its previous record year (i.e., 2005). The growth in the 2008 annual surplus compared to 2007 was primarily because of increases in non-renewable resources revenues exceeding increases in spending. In 2005, (the previous record-high year), the higher annual surplus resulted primarily from increased transfers from the Federal Government.

Total spending

Graph 2 shows that in 2008 the Government spent almost 77% of its total spending of \$9.9 billion in the following five areas: health (37%), education (18%), social services and assistance (9%), interest (8%), agriculture (5%). Spending in the remaining areas accounted for 23% of the Government's total spending (other). Appendix 2 – graphs J to L and Appendix 4 set out spending trends.

Graph 2

The Government's total spending by type as at March 31, 2008



A government must manage its revenue-raising and spending practices in the context of its provincial economy. Looking at GDP and debt provides insights into these practices. GDP is a measure of the value of the goods and services produced during a given year. GDP indicates the size of the provincial economy.

Net Debt

Net debt is the amount that current and past generations of citizens leave to future generations of citizens to pay or finance. It is the amount by which total liabilities exceed total financial assets.

The steady and recent strong growth in Saskatchewan's GDP has helped the Government reduce its net debt.

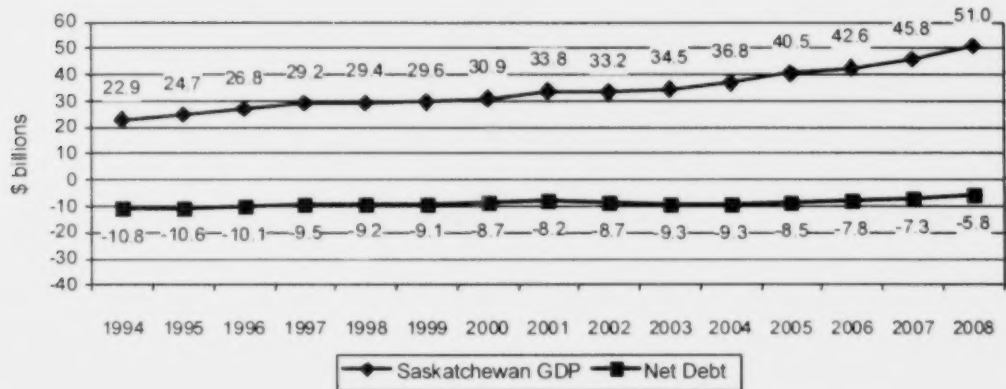
Graph 3 shows Saskatchewan's provincial economy has experienced strong growth in the last five years (i.e., increases of more than \$2 billion over the prior year in each of these years).² The provincial economy, as reflected by Saskatchewan's GDP, grew steadily from \$22.9 billion in 1994 to a new record high of \$51.0 billion in 2008. This represents 122% growth in the provincial economy. During the same fifteen-year period, the consumer price index increased by 35%.³

² Saskatchewan Bureau of Statistics for GDP at December 31. GDP statistics reflect the previous calendar year since statistics are not available for twelve-month periods ending March 31. GDP is not adjusted for inflation (i.e., nominal GDP).

³ Consumer Price Index by Province, Statistics Canada, www40.statcan.ca. (Accessed June 28, 2008). See Appendix 2 – Graph A.

Graph 3 shows that the Government's net debt declined from its high of \$10.8 billion in 1994 to \$5.8 billion in 2008. Over the fifteen-year period ending in 2008, the net debt burden on Saskatchewan taxpayers has decreased by almost 47% from \$10,668 per capita in 1994 to \$5,707 per capita in 2008.

Graph 3 Saskatchewan's GDP and the Government's net debt from 1994 to 2008



Net debt as a percentage of provincial GDP

Net debt as a percentage of provincial GDP measures the level of financial demands placed on the economy by a government's spending and revenue-raising practices. It provides a measure of how much debt a government can afford to carry. The larger the economy, the more debt a government can afford to carry.

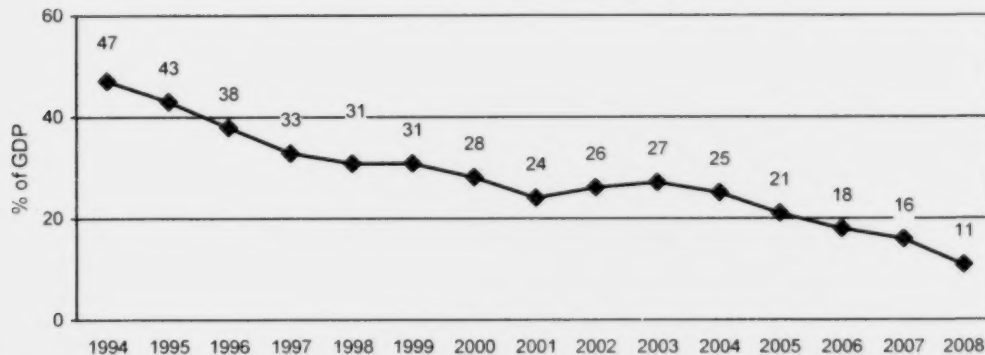
Higher percentages mean a government is placing a growing debt burden on taxpayers and it will need more future revenue to repay the debt. Higher percentages can adversely impact the interest rate at which a government can borrow (i.e., because of lower credit ratings)—lower or decreasing percentages are better.

The steady downward trend of net debt as a percentage of provincial GDP suggests the Saskatchewan economy can better sustain demands that the Government places on it.

Graph 4 shows the net debt to GDP at March 31, 2008 was 11% down from 16% in the prior year. The decrease from the prior year resulted

from a record annual surplus in 2008 along with strong growth in the provincial economy.

Graph 4 **The Government's net debt as % of provincial GDP**
from 1994 to 2008



Reduced net debt has contributed to better credit ratings for the Government over the fifteen-year period ending March 31, 2008. The Government had a credit rating of AA (low) in 2008 compared to BBB in 1994.⁴ Better credit ratings mean the Government has more sources for borrowing and can borrow at lower interest rates. Appendix 2 – graphs O to R provides trends on the Government's credit ratings and comparisons with other provinces.

Net debt as a percentage of its provincial GDP – by province

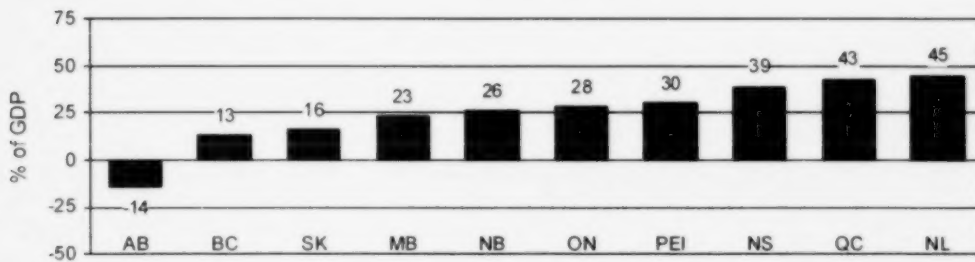
Based on net debt as a percentage of GDP at March 31, 2007, Saskatchewan continues to perform well when compared to its counterparts.

Graph 5 shows that Saskatchewan had the third lowest net debt to GDP ratio at March 31, 2007, following Alberta and British Columbia. This ranking is consistent with prior years.

⁴ Reflects Dominion Bond Rating Service (DBRS) rating for Province of Saskatchewan long-term debt (i.e., bonds and debentures). The DBRS® long-term debt rating scale from AAA to D gives an indication of the risk that a borrower will not fulfill its full obligations in a timely manner. DBRS ratings are publicly available at www.dbrs.com.

Graph 5

Net debt as % of GDP as at March 31, 2007 by province



Flexibility

Flexibility measures the degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenue or by increasing its net debt.

Looking at trends for the following indicators provides insight into a government's flexibility:

- ♦ a government's own-source revenue
- ♦ a government's investment in tangible capital assets
- ♦ a government's interest costs

Own-source revenue as a percentage of provincial GDP

A government's **own-source revenue as a percentage of provincial GDP** shows how much revenue from the provincial economy a government raises through taxation and users fees. High percentages or increases in percentages mean a government is placing higher demands on its provincial economy – its demands are outpacing growth in the economy. This can make future increases in taxes or user fees difficult.

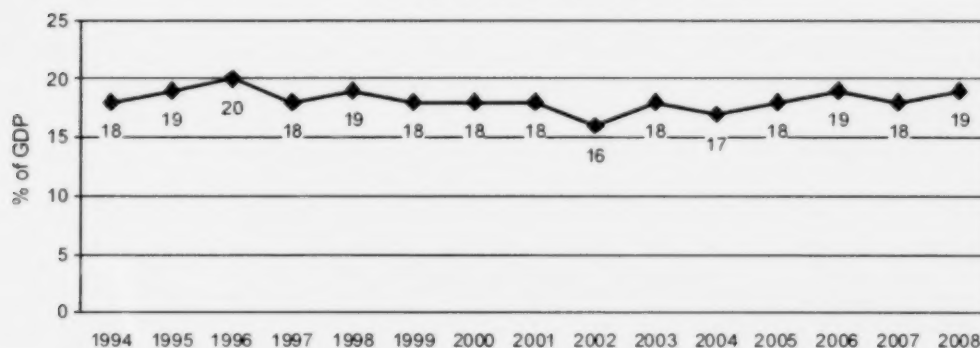
Graph 6 shows that own-source revenue as a percentage of provincial GDP has remained fairly constant since 1994. This ratio was 19% at March 31, 2008, up from 18% in the prior year. As shown in Graph 3, the provincial economy has grown steadily over the last fifteen years with stronger growth in the last five years.

In general, over the last fifteen years, the pace of increases in the Government's own-source revenue (i.e., revenue raised from within the Province) has continued to match increases in the size of the provincial economy. The consistency in the percentage over the last fifteen years

means that the Government has not significantly changed its demands on the provincial economy over this time.

Graph 6

**The Government's own-source revenue
as % of GDP from 1994 to 2008**



Saskatchewan's own-source revenue has grown steadily. It increased from \$4.1 billion in 1994 to \$9.9 billion in 2008.⁵ The main contributors to increases in own-source revenue between 1994 and 2008 are as follows:

- ♦ taxes increased \$2.2 billion (primarily because of increases in the following taxes: \$0.9 billion in individual income, \$0.5 billion in corporate income, \$0.3 billion in corporate capital, and \$0.3 billion in sales)
- ♦ revenue from non-renewable resources increased \$1.9 billion (primarily because of increases of \$1.3 billion in oil royalties and \$0.4 billion in potash royalties)
- ♦ other own-source revenue increased \$1.7 billion (primarily because of increases of \$0.5 billion in fees, \$0.5 billion in investment income, and \$0.3 billion in income from government business enterprises)

Appendix 4 provides revenues by source from 1991 to 2008.

Own-source revenue as a percentage of its GDP – by province

At March 31, 2007, Saskatchewan, along with Nova Scotia and Prince Edward Island, had the second highest percentage ratio of own-source revenue as a percentage of provincial GDP. At the same time,

⁵ Own-source revenue is total revenue less federal government transfers.

Saskatchewan had the third lowest ratio of "taxes and other revenue" as a percentage of provincial GDP.

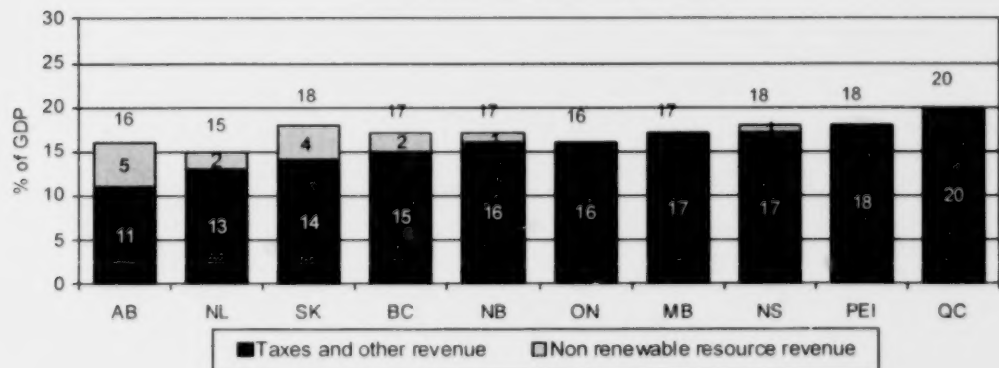
Graph 7 provides a breakdown of revenue of each province by "taxes and other revenue" and "non-renewable resource revenue." It ranks the provinces by "taxes and other revenue."

Saskatchewan, in common with other provinces, continues to rely primarily on "taxes and other revenue" as its primary source of own-source revenue. In 2007, Saskatchewan's ratio of taxes and other revenue as a percentage of its GDP dropped to 14% from 15% in 2006. In 2006, in common with BC, Ontario, and Newfoundland and Labrador, it had the second lowest ratio.

Graph 7 also shows the six provinces (i.e., British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia, and Newfoundland and Labrador) with "non-renewable resource revenue." For Alberta, this source of revenue made up almost one-third of its total own-source revenue.

Graph 7

**Own-source revenue as % of GDP
as at March 31, 2007 by province**



Net book value of tangible capital assets as a percentage of cost

Governments invest billions of dollars in tangible capital assets such as buildings, equipment, roads, and dams. Governments use these assets to deliver government services and provide infrastructure to support economic activity.

The **net book value of tangible capital assets as a percentage of cost of tangible capital assets**⁶ measures the extent to which a government is maintaining or failing to maintain the tangible capital assets it needs to deliver services. Increases in ratios means a government is enhancing or improving its tangible capital asset base. Decreases in ratios means a government is delaying the replenishment of its essential tangible capital assets. Delays in investing in tangible capital assets may improve financial results in the short term but lead to increased financial burden on future taxpayers because of higher costs for maintenance or asset replacement. Also, tangible capital assets in poor condition may diminish service delivery.

The Government had significant tangible capital assets with a net book value of \$4.4 billion at March 31, 2008.

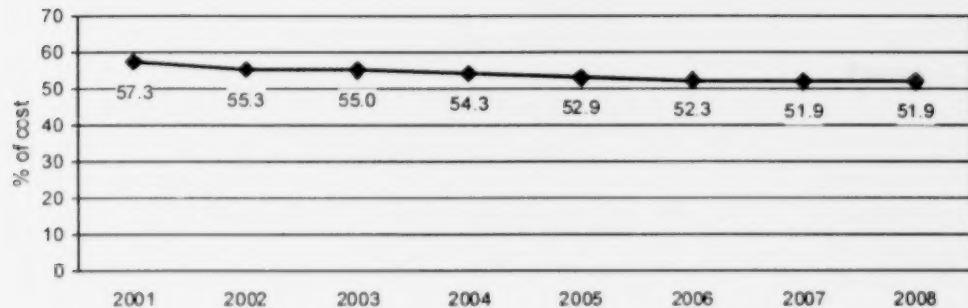
In 2008, the Government bought \$548 million of tangible capital assets and assumed control over \$79 million of tangible capital assets for a total increase in cost of \$627 million.⁷ During 2007-08, its assets decreased in value by \$317 million through age and use (i.e., amortized or depreciated).

Graph 8 shows that on average the Government's tangible capital assets are about halfway through their useful lives. The downward trend from 2001 to 2006 shows the Government's tangible capital assets aged faster than they were replaced. The relatively constant percentage since 2006 shows the Government's replacement of assets matched their reduction in value because of age and use.

⁶ In the CICA *Statement of Principle: Indicators of Government Financial Condition* (December 2007), this indicator replaces the indicator of "annual percentage increase in net book value of tangible capital assets".

⁷ During 2007-08, the Government acquired a controlling interest in Big Sky Farms Inc. Its share of Big Sky Farms Inc. tangible capital assets was \$79 million.

Graph 8 Net book value of tangible capital assets as a % of cost of tangible capital assets from 2001 to 2008



Comparisons by province are not provided because complete information on tangible capital assets is not yet available for all provinces.

Interest costs as a percentage of total revenue

The amount of **interest costs** (debt charges) **as percentage of total revenue** (sometimes called the "interest bite") shows the extent to which a government must use revenue to pay for interest costs rather than pay for services. The more money a government pays for interest costs, the less money it has to pay for services. For the interest bite, a lower ratio or decreasing trend means the government has more money available to pay for services.

Graph 9 shows a significant decline in interest costs as a percentage of revenue—a downward trend is positive. This decrease in the interest bite resulted primarily from increased revenue along with lower interest costs. The Government's revenue has more than doubled over the fifteen-year period ending March 31, 2008 from \$5.6 billion in 1994 to \$11.7 billion in 2008. Over the same fifteen-year period, the Government's interest costs have decreased by about one-third. Interest costs have decreased by \$466.4 million from \$1.3 billion in 1994 to \$818.6 million in 2008.⁸

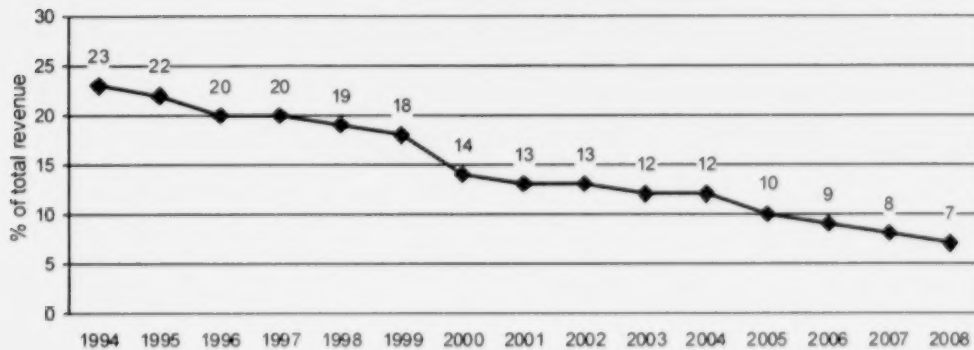
Because of increased revenues and decreased interest costs, the amount of revenue the Government used to pay interest has steadily declined. In

⁸ Interest costs are net of interest reimbursed from government business enterprises. In 2007-08, government business enterprises reimbursements of interest were \$253 million (2006-07: \$258 million). In 2007-08, total interest costs were \$1,064 million (2006-07: \$1,064 million).

1994, the Government used 23 cents of every dollar of its revenue to pay interest. In 2008, it used seven cents of every dollar of revenue—this was a slight improvement from the prior year where it used eight cents of every dollar of revenue. These reductions in interest costs have given the Government more resources to provide services without having to increase its revenue.

Graph 9

**The Government's interest costs as
% of total revenue from 1994 to 2008**



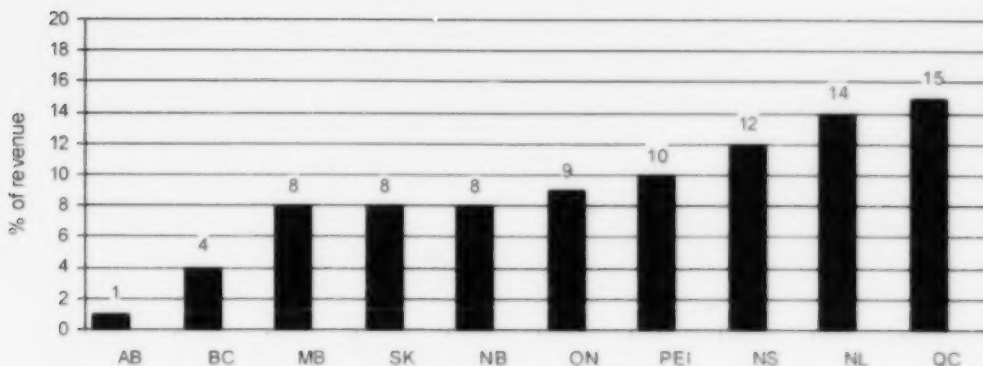
Interest costs as a percentage of its total revenue – by province

At March 31, 2007, Saskatchewan's interest costs as a percentage of total revenue continued to rank in the mid-range when compared to its counterparts.

Graph 10 shows that Saskatchewan, at March 31, 2007, tied with both New Brunswick and Manitoba for third lowest at 8%. Saskatchewan has been either fifth or sixth lowest since 2001. Consistently, Alberta has been the lowest and British Columbia the second lowest.

Graph 10

Interest costs as % of total revenue
as at March 31, 2007 by province



Vulnerability

Vulnerability is the degree to which a government is dependent upon, and thus, vulnerable to sources of revenue outside of its control or influence. This indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

Looking for trends in federal transfers provides insight into a government's dependency on outside revenue.

Revenue from Federal Government transfers

Federal Government transfers are a significant source of revenue for provincial governments including Saskatchewan.

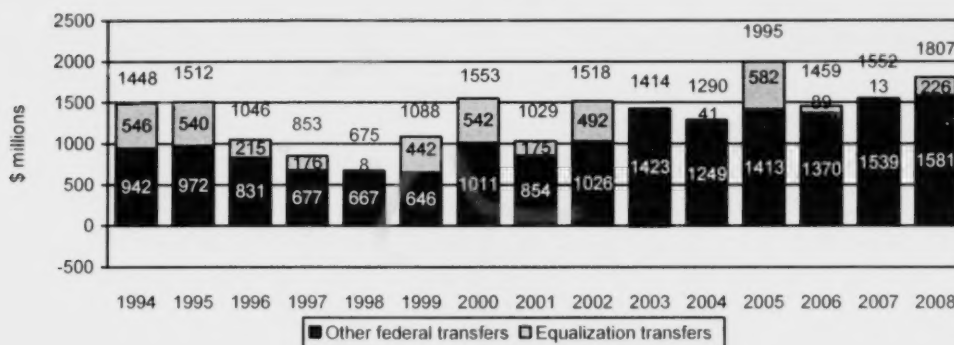
Provincial governments have no control over the amount of federal transfers they get each year. For example, the Federal Government calculates the amount of equalization transfers by comparing the ability of provincial governments to raise revenue. Its calculation takes into account the performance of provincial economies relative to each other. The size of the provincial economy in any given year relative to other provinces significantly affects the annual amount of the equalization transfers.

Provincial governments can be at risk if they place too much reliance on this source of revenue to pay for their services. Governments typically find it difficult to reduce or eliminate established services. Unexpected reductions in federal government transfers could impair a provincial government's ability to deliver its services. Significant shifts in federal

transfers make it more challenging for the Government to make long-term decisions about service delivery.

Graph 11 shows that Federal Government transfers to Saskatchewan increased to \$1.8 billion in 2008 from \$1.5 billion in 1994. The amount of transfers fluctuated significantly during this period from a low of \$675 million in 1998 to a high of \$2.0 billion in 2005. Fluctuations occurred in both equalization and other federal transfers.⁹ In 2005, the Government recorded a \$582 million one-time equalization transfer. In 2008, Saskatchewan received another one-time equalization payment of \$226 million. The other federal transfers remained substantially unchanged from the prior year.

Graph 11 Revenue from Federal Government transfers from 1994 to 2008



Federal Government transfers as a percentage of own-source revenue

Federal Government transfers as a percentage of own-source revenue shows the extent to which a government is dependent on money from the Federal Government to operate. A government showing increasing trends is becoming increasingly dependent on federal money to operate—that is, changes in the levels of Federal Government transfers would have a greater impact on that government's ability to deliver expected services.

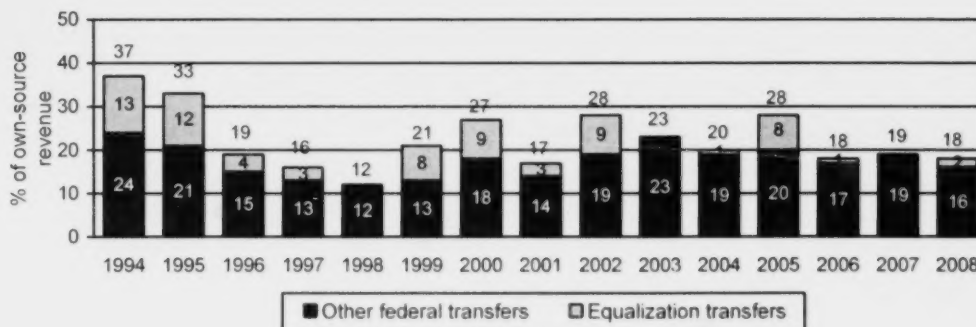
⁹ Other federal transfers are intended to help pay for the costs of such services as health, education, and agriculture. Other federal transfers include Canada Health transfers, Canada Social transfers, and transfers for education and agriculture.

The continued increase in the Government's own-source revenue has helped the Government become less dependent on money from the Federal Government. It is less vulnerable to the impact of changes in federal transfers on the Government's ability to deliver its services.

Graph 12 shows that, over the fifteen-year period, Federal Government transfers as a percentage of Saskatchewan's own-source revenue have generally decreased by more than one-half (that is, from 37% in 1994 to 18% in 2008). The decrease has resulted primarily from increases in own-source revenue over this period.

As previously noted, almost one-third of the increase in Saskatchewan's own-source revenue over this fifteen-year period was from non-renewable resource revenue (primarily from increased prices in oil and potash).¹⁰ Because of how equalization is calculated, increases in non-renewable resource revenue have resulted in decreases in federal equalization transfer revenue. Appendix 2 – Graph H compares trends of federal equalization transfers and oil revenue.

Graph 12 Federal Government transfers as % of Saskatchewan Government own-source revenue from 1994 to 2008



Federal Government transfers as a percentage of own-source revenue - by province

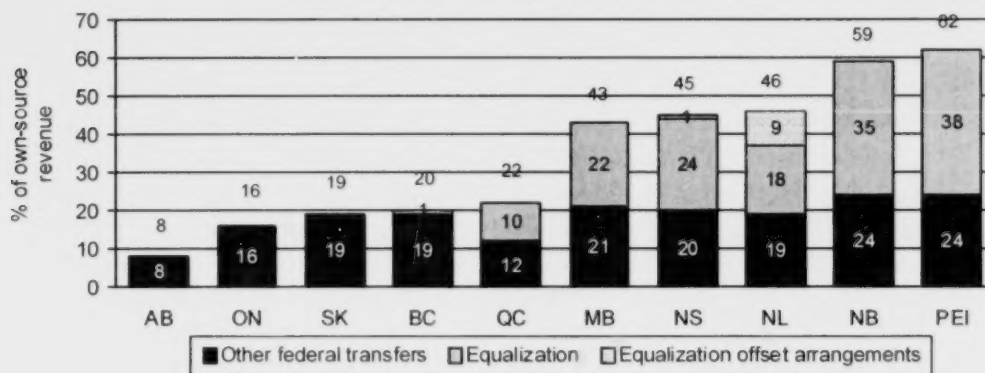
Based on federal transfers as a percentage of own-source revenue at March 31, 2007, Saskatchewan is less dependent on federal transfers than most other provinces.

¹⁰ Non-renewable resources are commodities whose prices are set by worldwide markets beyond the Government's control.

Graph 13 breaks down Federal Government transfers into three types: other federal transfers, equalization, equalization offset arrangements. Graph 13 shows that Saskatchewan was third lowest of the ten provinces for reliance on federal transfers. This ranking is consistent with the prior year.

Graph 13

Federal Government transfers as % of own-source revenue as at March 31, 2007 by province



As previously shown in Graph 7, Alberta, British Columbia, Saskatchewan, and Newfoundland and Labrador have significant “non-renewable resources” revenue. Graph 13 shows that Alberta, British Columbia, and Saskatchewan receive no or low federal equalization transfers. For these provinces, increases in oil and gas revenue have resulted in decreases in federal equalization transfer revenue.

The situation differed for two provinces with non-renewable resource revenue (i.e., Newfoundland and Labrador and Nova Scotia). These provinces receive additional equalization offset payments from the Federal Government under an act of Parliament.¹¹ For these two provinces, increases in their own-source offshore petroleum revenue have not resulted in decreases in federal transfers related to equalization.

¹¹ *Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act*, Government of Canada, June 2005. The Federal Government compensates Newfoundland and Labrador and Nova Scotia for lost equalization payments resulting from higher offshore oil revenue.

The importance of the summary financial information

Legislators and the public need current and understandable financial information on the entire government to assess a government's performance. Provincial governments are responding to this need. Many provincial governments across Canada have improved their summary-level financial reporting dramatically in recent years.

In this section, we compare the nature and extent of summary-level financial reporting of other provinces to Saskatchewan's reporting.

Most governments publish a summary financial plan (budget), periodic interim reports, and audited summary financial statements with accompanying discussion and analysis. Summary-level financial reports combine the financial activities of all agencies of a government. These reports provide the following key financial information:

- ◆ a snapshot of a government's financial position
- ◆ the results of its activities for the reporting period (e.g., year)
- ◆ the amount of revenue raised in the reporting period, the amount spent in the period or year, and the difference between these amounts (i.e., surplus or deficit)
- ◆ the amount it borrowed and repaid in the reporting period
- ◆ how it used its resources
- ◆ a comparison of its actual results to its planned results (based on the summary financial plan)

Saskatchewan's summary-level financial reporting practices

The size and the nature of the Government of Saskatchewan, as with other governments, is dynamic. Its operations are the sum of many parts. At March 31, 2008, the Government of Saskatchewan carried out its operations through over 280 different agencies. These agencies include government ministries (such as Health and Education), Crown corporations (such as SaskPower and SaskTel), boards (such as the Workers Compensation Board), commissions (such as the Legal Aid Commission), and special purpose funds (such as the General Revenue Fund).

For the year ending March 31, 2008, Saskatchewan published a summary financial plan, a mid-year interim report, and annual audited summary financial statements with accompanying discussion and analysis.

While the Government publishes financial statements for most of its various agencies, only the summary-level reports provide a complete picture of the financial affairs of the entire Government.

Because of their completeness, summary-level financial reports should be the primary source of information for assessing and understanding the financial condition of a government. Unfortunately, in Saskatchewan, they are not.

In Saskatchewan, the Government publishes summary-level financial reports together with financial information on the General Revenue Fund (GRF).¹² As Table 1 shows, in many of its publications, the Government focuses on the financial activities of the GRF as opposed to those of the entire government (summary level).

Table 1 Examples of financial reporting with GRF focus

Saskatchewan Provincial Budget – Budget Summary (Budget Summary) sets out the Government's "2008-09 Budget" and supporting documents. This publication includes two budgets:

- the Summary Financial budget (the financial plan of the entire Government)
- the General Revenue Fund (GRF) budget (the financial plan of the GRF)

The supporting documents included within the Budget Summary focus primarily on activities of the GRF. These supporting documents provide limited information on activities of the entire Government.

Public Accounts 2007-08 Volume 1 Main Financial Statements includes the audited Summary Financial Statements in Volume 1 of Public Accounts along with the GRF financial statements and other financial information.¹³ The Government describes its main financial statements as being both the GRF financial statements and the Summary Financial Statements.¹⁴

June 27th 2008 news release announces the release of the 2007-08 Public Accounts.¹⁵ The release highlights the financial results of the GRF (e.g., GRF surplus \$641.4 million) and does not refer to the financial results of the Summary Financial Statements (e.g., annual surplus of almost \$1.9 billion).

¹² The General Revenue Fund is a special purpose fund that the Government uses to pay for some of its services. By law, the Legislative Assembly must approve the spending from the General Revenue Fund. The spending is set out each year in the Estimates (an annual budget).

¹³ *Public Accounts 2007-08 Volume 1 Main Financial Statements* is available with the remaining Public Accounts at <http://www.gov.sk.ca/finance/paccts>. (Accessed July 8, 2008)

¹⁴ Government of Saskatchewan. (2008). *Public Accounts 2007-08 Volume 1 Main Financial Statements*, Regina. p.4.

¹⁵ News release is available at <http://www.gov.sk.ca/news?newsId=674250c9-9803-462f-b3a2-230b485842c3> (Accessed July 8, 2008)

The Government's practice of focusing on the GRF instead of the summary-level provides legislators and the public with an incomplete financial picture. The GRF is a special purpose fund; it does not include the activities of the entire Government. Significant activities are carried on outside of the GRF such as those of its Crown corporations. Also, for at least twenty years, our Office has reported serious concerns with the accuracy of the financial statements of the GRF that significantly impair their usefulness.¹⁶

The Government's current financial reporting practices create confusion for legislators and the public. Legislators and the public become uncertain as to which information to use to judge the Government's financial performance.

Furthermore, this practice is not consistent with that of other provincial governments. Only Saskatchewan does not use summary-level financial information as the primary focus to inform legislators and the public of its financial plans and results. Other provincial governments have moved or are moving to use summary-level financial reports as the basis to explain their government's financial picture.

Recent key financial publications and related news releases of other governments focus first on the summary reporting entity. When these governments provide additional information, it is evident that the information is in addition to the summary-level information.

Most other provinces include only the audited summary financial statements in their Volume 1 of Public Accounts (or equivalent). Manitoba, like Saskatchewan, included two sets of audited financial statements in its 2007 Annual Report but unlike Saskatchewan clearly stated its intent to "...focus more attention on the summary results of the government reporting entity...".¹⁷

Legislators and the public should question the Government's continued focus on the GRF and insist the Government provide them with better information on its entire operation. To be in common with the financial reporting practices of other provinces, Saskatchewan needs to change. It

¹⁶ Provincial Auditor. (December 2007). *2007 Report: Volume 3 Report of the Provincial Auditor to the Legislative Assembly. Chapter 9 – Finance*. pp. 124 – 127.

¹⁷ Government of Manitoba. (2007). *Province of Manitoba Annual Report for the year ended March 31, 2007*. Winnipeg.

should use its summary-level financial reports as the starting point when discussing its financial plans and results.

1. **We recommend that the Government use the summary reporting entity as the primary basis for reporting its financial plans and results.**

Summary-level financial plans

A summary-level budget presents a complete picture of how a government expects to operate as a whole. That is, it includes the combined planned financial results of all organizations that a government controls and uses to provide goods and services to the public. It presents the expected total costs of providing those services along with how the government plans to pay for those services.

Since 2004-2005, the Government has published a summary-level financial plan (summary budget). Each year, the Government's summary budget sets out the planned annual surplus, and estimated debt. It provides this by the Government's various agencies and overall. Also, the summary budget includes estimated pension liabilities and the total capital assets that the Government plans to buy.

The summary budget does not include any detail on the Government's planned revenues and expenses. Because the summary budget does not provide this level of information, it does not set out where and how the Government plans to collect and spend taxpayer's money.

The 2008-09 summary-level budgets of all other provinces set out the expected revenues by type and expenses by program category.

Providing detail on revenues and expenses assists legislators and the public in understanding the services the Government plans to deliver and how the Government plans to finance those services.

2. **We recommend that the Government include a statement of operations with estimated revenues and expenses in its summary financial budget.**

Interim reporting of financial information

Timely interim financial reporting improves the ability of legislators and the public to understand a government's financial condition during the year.

During 2007-08, seven of the ten provinces published summary-level interim financial results. Four of these provinces published on a quarterly basis, one province published monthly, one province published semi-annually, and Saskatchewan published a mid-year report. In addition, for many provinces, their summary-level budgets include a year-end forecast.

The extent of interim financial information provided varied significantly. As Table 2 shows, for the most part the extent of information most provinces provided was comparable to information in their summary-level budget. A few provinces provided brief financial highlights, like Saskatchewan and Quebec. Some, like BC, provided financial information comparable to that in its summary financial statements along with detailed discussion and analysis.

All provinces compared their forecasted results with their summary-level budget. Three of the seven provinces also compared actual results-to-date to budgeted results. Saskatchewan did not.

Table 2 Interim financial reporting practices by province

Jurisdiction	Frequency of interim report	General content	Nature of financial comparisons
			CY: current year/reporting period PY: prior year/reporting period YTD: year to date
Saskatchewan	Mid-year	- brief summary statement of surplus and debt	- full year: CY budget, CY forecast, variance
British Columbia	Quarterly	- detailed financial information using format similar to summary financial plan and summary financial statements - discussion of key risks and reasons for significant variances - set out changes in detailed revenue and expense assumptions from budget	- YTD: PY actual, CY budget, CY forecast, variance - full year: PY actual, CY budget, CY forecast, variance

Jurisdiction	Frequency of interim report	General content	Nature of financial comparisons CY: current year/reporting period PY: prior year/reporting period YTD: year to date
Alberta	Quarterly	<ul style="list-style-type: none"> - detailed financial information using format similar to summary financial plan and summary financial statements - sets out changes in key assumptions from budget 	<ul style="list-style-type: none"> - YTD: PY actual, CY actual - full year: CY budget, CY forecast
Manitoba	Quarterly	<ul style="list-style-type: none"> - summarized total revenues, expenses, and net income with reasons for variances - detailed revenue and expense information on "core government" with less information on "other reporting entities"¹⁸ 	<ul style="list-style-type: none"> - YTD for 'core government': PY actual, CY actual, CY budget, variance - full year: PY actual, CY budget, CY forecast, variance
Ontario	Quarterly	<ul style="list-style-type: none"> - detailed financial information using format similar to summary financial plan and summary financial statements 	<ul style="list-style-type: none"> - full year: PY actual, CY budget, CY forecast
Quebec	Monthly	<ul style="list-style-type: none"> - brief financial summary with narrative - results of large entities provided on net basis 	<ul style="list-style-type: none"> - month: PY actual, CY actual, variance - YTD: PY actual, CY actual - full year: CY budget, CY forecast
Nova Scotia	Semi-annual	<ul style="list-style-type: none"> - detailed financial information using format similar to summary financial plan and summary financial statements - sets out reasons for variances. 	<ul style="list-style-type: none"> - full year: CY budget, CY forecast, variance

Since our *2005 Report – Volume 2*, we have encouraged the Government to expand its reporting of results compared to its plan. In our *2007 Report – Volume 2*, we recommended that the Government publish actual and forecasted results compared to its financial plan for the entire Government in each quarter.

¹⁸ The Government of Manitoba defines "core government" as a component of the government reporting entity and those programs and services delivered by government ministries and revenues directly under the government's control.

In January 2008, the Standing Committee on Public Accounts did not accept our recommendation. Rather the Committee directed the Ministry of Finance to review the implications of reporting year-to-date actual results as opposed to only forecasted results for the General Revenue Fund (GRF) on a quarterly basis.

Providing better financial reports for the GRF is not a suitable substitution for better reporting for the entire government.

We continue to recommend the Government publish, each quarter, actual and forecasted results compared to its summary financial plan.

Financial statement discussion and analysis

In June 2008, for the first time, the Government published some financial statement discussion and analysis along with the audited Summary Financial Statements.

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA) encourages governments to include financial statement discussion and analysis (FSD&A) with their summary financial statements.¹⁹ Providing FSD&A helps legislators and the public to understand a government's financial position and results and can lead to more-informed decisions and judgments. FSD&A also assists a government to show its accountability for resources entrusted to it.

Upon comparison of the Government's FSD&A to the CICA suggested information, we found it was a reasonable start. However, it does not yet include information on the following suggested areas:

- ◆ significant changes and events, and key risks and uncertainties that impacted its financial results from the prior year, last report, and plan
- ◆ robust analysis of trends and key financial statement items including revenue by source and expenses

The Government's FSD&A includes limited budget to actual variance analysis. It is limited due to the brevity of the information included in the Government's summary budget.

¹⁹ *Statement of recommended practice – Financial statement discussion & analysis*, CICA Public Sector Accounting Board, June 2004

Understanding the Finances of the Government

Six other provinces published FSD&A along with their 2007 audited summary financial statements. The information provided by three of these provinces satisfies most of the information suggested by the CICA.

We look forward to the Government's further progress in expanding its FSD&A at the summary-level.

Appendix 1 – Glossary of key terms

Annual surplus (deficit) – is the difference between revenue and expenses in one year.

Accumulated deficit – is the sum of all annual deficits and surpluses to date. The accumulated deficit is equal to the total liabilities less the total assets.

Amortization – The amount a tangible capital asset is reduced each year to reflect its loss of value through age and use, sometimes referred to as depreciation.

Commodity – Any good exchanged in trade. Usually refers to raw materials and agricultural products traded principally based on price.

Consumer Price Index (CPI) – is a measure of the change in cost of living for consumers by looking at the general price of goods and services used by the average consumer. Goods and services include energy, food and beverages, housing, apparel, transportation, medical care, and entertainment.

Financial assets – are cash and other assets convertible to cash and not intended for use in the normal course of operations, but which could provide resources to pay liabilities or finance future operations. Examples of financial assets include investments in government business enterprises, marketable securities, and inventories for resale.

Government business enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals outside of a government and to non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority.

Government's financial condition – is a government's financial health as assessed by its ability to meet its existing financial obligations.

Government service organizations – are organizations controlled by a government that are not government business enterprises.

Gross domestic product (GDP) – is a measure of the value of the goods and services produced in a jurisdiction in one year.

Interest bite – measures interest costs as a percentage of revenue and is an indicator of the state of a government's finances. The indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

Liabilities – are amounts owed. Liabilities include bonds and debentures, unfunded pension liabilities/obligations, and a variety of other payables and claims.

Net assets – is when total financial assets exceed total liabilities.

Net book value – the amount of net assets recorded in the books of accounts or financial statements. For example, the net book value of tangible capital assets is the recorded value of the assets less the total accumulated amortization related to those assets.

Net debt – is when the total liabilities exceed total financial assets.

Non-financial assets – are assets not readily convertible to cash. Examples include tangible capital assets, inventories for consumption, and prepaid expenses.

Own-source revenue – is the revenue raised by a provincial government from sources within the province and, thus, excludes Federal Government transfers.

Ratio – a comparison between two numbers. For example, the ratio of net debt per capita is the amount of net debt divided by the population. Any fraction, quotient, proportion, or percentage is a ratio.

Summary financial budget – is a report of the combined planned financial results of all organizations that a government controls and uses to provide goods and services to the public. Government organizations included in the statements include ministries, Crown corporations, agencies, boards, and commissions.

Summary financial statements – is a report of the combined actual financial results of all organizations that a government controls

and uses to provide goods and services to the public. Government organizations included in the statements include ministries, Crown corporations, agencies, boards, and commissions.

Tangible capital assets – identifiable long-term assets that are acquired, constructed or developed, and held for use rather than for sale. Examples include land, highways, buildings, automobiles, computer hardware and software, but exclude inventories, crown land, and capital assets held by government business enterprises. Tangible capital assets are a key component in the delivery of government services and provide on-going value to the public.

Appendix 2 – Additional financial information and analyses

This appendix sets out additional financial information and analyses in the form of questions and answers. This information is intended to assist legislators, government officials, and the public to understand the Government's finances.

1. Which items significantly affected the Summary Financial Statements' current year results compared to prior year results?

In 2008, the Government's revenue increased by \$1.9 billion and its expenses increased by \$0.6 billion resulting in the annual surplus increasing by a record amount of \$1.3 billion from last year.²⁰ Appendix 4 provides further detail on revenues and expenses.

The following items significantly contributed to the overall increase of \$1.9 billion in revenue:

- ◆ Taxation revenue was \$249 million higher than last year. This was mainly because of higher revenue from individual income taxes.
- ◆ Transfers from the Federal Government increased \$255 million from the prior year. This net increase was primarily because of a one-time equalization federal transfer of \$226 million.
- ◆ Non-renewable resource revenue increased \$631 million from the prior year. This net increase was mainly because of increases in oil revenue of \$346 million and potash revenue of \$271 million.
- ◆ Own-source revenues increased \$250 million from the gain on sale of the Government's interest in NewGrade Energy Inc.

²⁰ Government of Saskatchewan. (2008). *Public Accounts 2007-08 Volume 1 Main Financial Statements*, Regina. (Available at www.gov.sk.ca/finance/paccts/paccts08/volume1-2007-08.pdf).

The following items contributed to the overall increase of \$0.6 billion in expenses:

- ◆ Health expenses were \$306 million more than last year. This increase was mainly because of increased salaries and benefits costs, operating costs of regional health authorities and the cancer agency, and nursing recruitment costs.
- ◆ Education expenses were \$95 million more than last year. This was mainly because of increased expenses for teachers' salaries and benefits, additional grants for childcare facilities, and additional grants to the universities.
- ◆ Social services and assistance expenses were \$57 million more than last year. This increase was mainly because of increased grants to/for community-based organizations, home care and foster care, and social housing.
- ◆ Community development expenses were \$34 million more than last year. This increase was mainly because of grants made under the Gaming Framework Agreement and grants to rural and urban municipalities.
- ◆ Economic development expenses were \$35 million more than last year. This increase was mainly because of increased costs for uranium site clean up, ethanol fuel tax rebates, and grants to foster economic development.
- ◆ Environment expenses were \$23 million more than last year. This increase was mainly because of increased costs for environmental clean up costs related to the Prince Albert Pulp mill.
- ◆ Protection of persons and property expenses were \$35 million more than last year. This increase was mainly because of disaster assistance costs for flooded areas and increased costs for salaries and benefit costs.
- ◆ Transportation expenses were \$45 million more than last year. This increase was mainly because of increased fuel

and contract labour costs, and increased costs of salaries and benefits.

2. How did the Government's actual results compare against its planned results for 2008?

Each year, the Government publishes its Summary Budget (i.e., the budget for the entire Government). Consistent with 2006 and 2007, the Government's actual results for 2008 were considerably better than planned. It had estimated an annual deficit of \$701 million for 2008.²¹ It recorded an annual surplus of \$1,873 million for a difference between planned and actual of \$2,574 million. Most of the difference resulted from unexpected increases in non-renewable resource revenues, increased taxation revenue, an unanticipated one-time equalization payment, and a gain on sale of its interest in NewGrade Energy Inc.

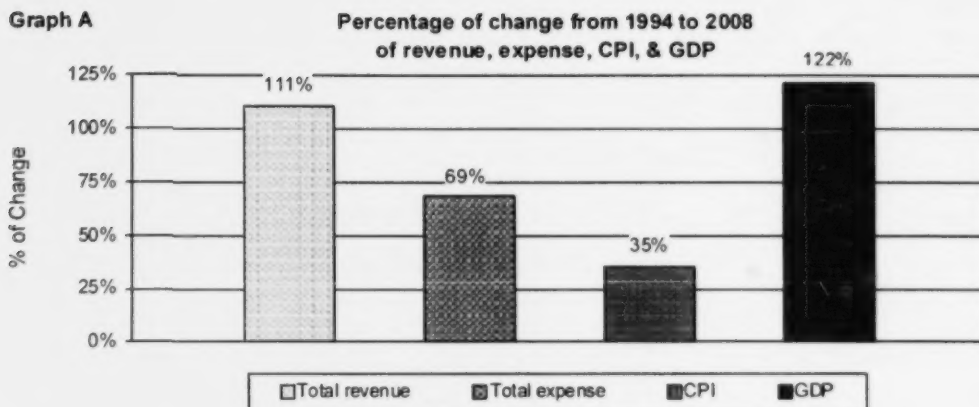
3. How did the Government's revenue raising and spending compare with changes in inflation?

Graph A compares, over a fifteen-year period ending in 2008, the percentage changes of the following: total revenue, total expenses, Saskatchewan's consumer price index (CPI), and gross domestic product (GDP). The report does not adjust the revenue, expenses, or GDP statistics for inflation.

Graph A shows that over this period "change in revenue" is lower than "change in GDP", and "change in expenses" exceeds "change in CPI". This is consistent with the prior year.

²¹ Government of Saskatchewan. (2008). *Public Accounts 2007-08 Volume 1 Main Financial Statements*, Regina, p.22.

Graph A



4. How did the Government's net debt per capita compare with other provinces?

Graph B shows each provincial government's net debt as at March 31, 2007 divided by that province's population as of July 1, 2007.²² A lower ratio is desirable.

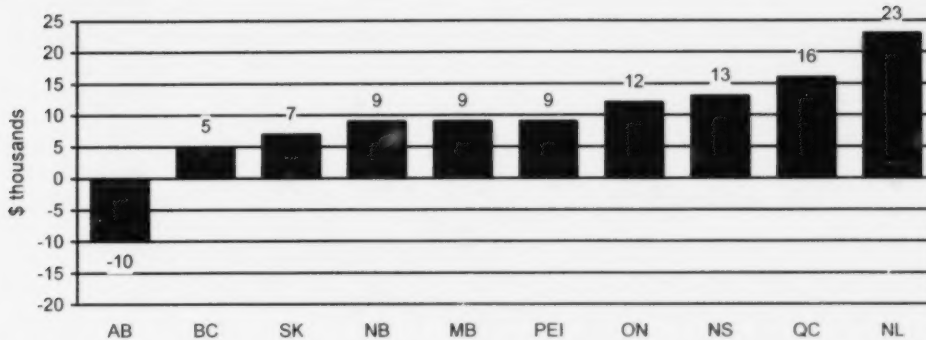
Graph B shows that Saskatchewan had the third lowest net debt per capita of the provinces at March 31, 2007. Only Alberta and BC had a better net debt per capita. This is consistent with recent years.

For the year ending March 31, 2008, Saskatchewan net debt per capita was \$5,707. Information for other provinces was not available at the time of writing this report.

²² Statistics Canada (updated July 11, 2008)

Graph B

Net debt per capita for 2007 by province



5. What was the annual percentage change in Saskatchewan's GDP over the last fifteen years?

Graph C shows the annual percentage change in the Saskatchewan economy as measured by the change in GDP (unadjusted for inflation).²³

Graph C shows that the Saskatchewan economy fluctuated significantly over the last fifteen years with strong growth since 2006.

Saskatchewan is a major exporter of goods and services; it exports about 70% of what it produces.²⁴ Key factors affecting the Saskatchewan economy that are beyond the Government's control include:

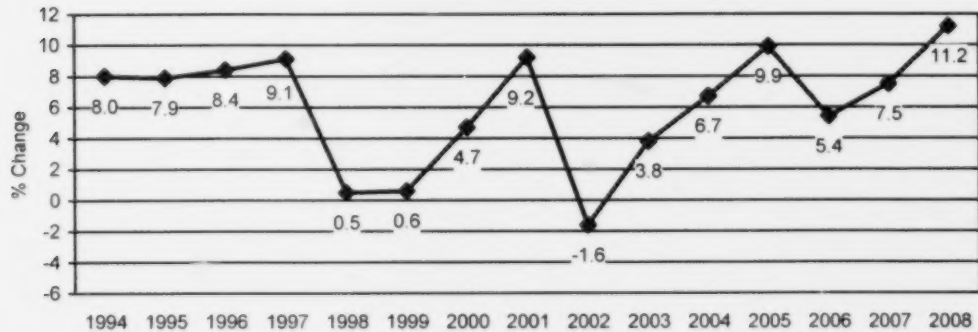
- ◆ The state of international economic conditions (primarily the United States because it consumes the majority of our exports)
- ◆ the value of the Canadian dollar (primarily in comparison to the United States dollar)

²³ Saskatchewan Bureau of Statistics for GDP at December 31. GDP statistics reflect the previous calendar year since statistics are not available for twelve-month periods ending March 31. GDP is not adjusted for inflation.

²⁴ Government of Saskatchewan. (March 2008). *Saskatchewan Provincial Budget 2008-09 Ready for Growth, Budget Summary*, Regina. p.23.

- ♦ price of commodities (e.g., non-renewable resources such as oil, potash, and natural gas and agriculture commodities such as crops and livestock)
- ♦ Canadian interest rates²⁵

Graph C Annual % change in Saskatchewan's GDP, 1994 to 2008

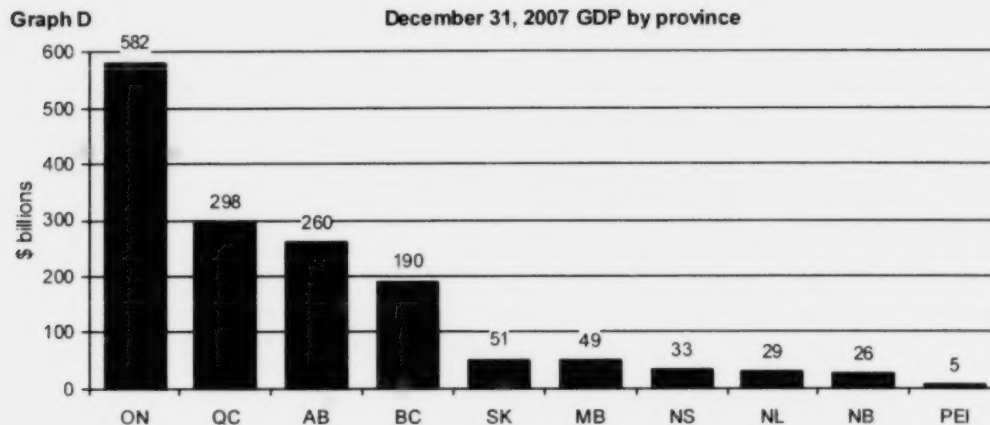


6. How did the size of Saskatchewan's GDP compare with other provinces?

Graph D shows that Saskatchewan's GDP at December 31, 2007 was the fifth largest. It was significantly lower than that of Ontario, Quebec, Alberta, and British Columbia, similar to Manitoba, and higher than the Maritime provinces.²⁶ This is consistent with the prior year.

²⁵ Government of Saskatchewan. (March 2008). *Saskatchewan Provincial Budget 2008-09 Ready for Growth*. Budget Summary, Regina. pp. 22-28.

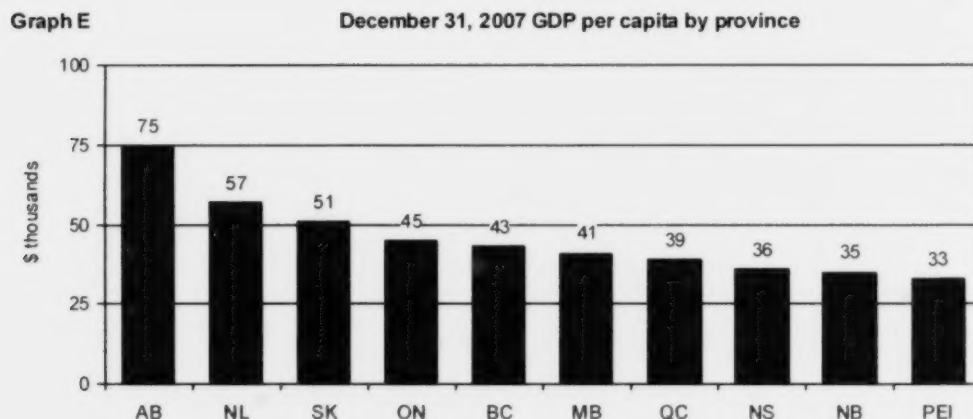
²⁶ Statistics Canada, <http://www40.statcan.ca/l01/cst01/econ15.htm>. (Accessed July 11, 2008).



7. How did Saskatchewan's GDP per capita compare with that of other provinces?

Graph E shows GDP per capita using the provincial GDP at December 31, 2007 divided by the population of the province at July 1, 2007.²⁷ A high ratio is desirable.

Graph E shows that Saskatchewan had the third largest GDP per capita of the provinces. While this ranking is unchanged from prior year, Saskatchewan had the second largest in 2005 and the third largest from 2001 to 2004.



²⁷ Statistics Canada, <http://www40.statcan.ca/l01/cst01/demo02a.htm> (Accessed July 11, 2008).

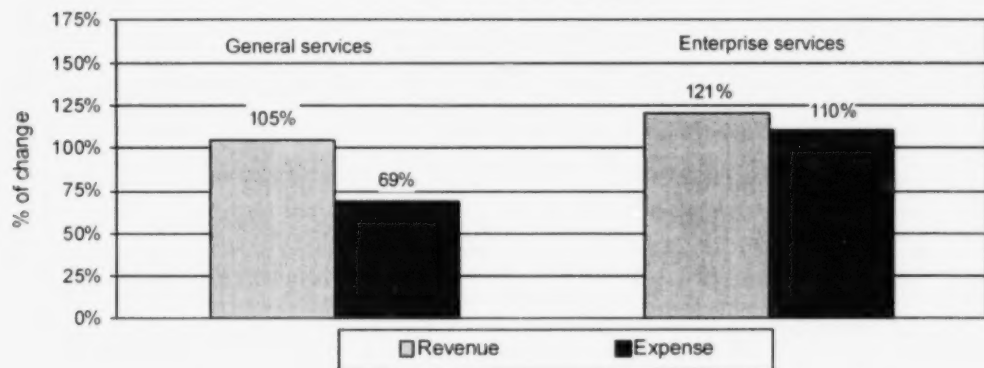
8. Has the Government changed the extent of activity it carries out through its government business enterprises?

Enterprise services reflect the financial activities of certain Crown corporations referred to as government business enterprises.²⁸

Graph F shows that from 1994 to 2008, enterprise services revenue increased 121% (1993 to 2007 – 123%) and related expenses increased 110% (1993 to 2007 – 117%).

General services include the financial activities of the rest of the Government. Over the same fifteen-year period, general services revenue increased 105% (1993 to 2007 – 81%) and general services expenses increased 69% (1993 to 2007 – 50%).

Graph F Percentage of change of revenue & expense from 1994 to 2008



The above amounts are not adjusted for inflation. For further detailed information on trends in the Government's revenue and expenses, see Appendix 4.

9. To what extent have the sales of large investments affected the Government's financial results?

Periodically, the Government has sales of large investments or revaluations of investments. When sales do occur, the

²⁸ The Government's business enterprises financial results are included in the Summary Financial Statements. (Government of Saskatchewan. (June 2008) *Saskatchewan Public Accounts 2007-2008 Volume 1: Main Financial Statements*. Regina. pp. 84 -86)

Government recorded gains or losses in the given year. For example, the Government recorded:

- ♦ a \$250.1 million gain on sale of shares of NewGrade Energy Inc. in 2008
- ♦ a \$48.5 million loss as a result of a write down of its interest in Meadow Lake Pulp Partnership Limited in 2006
- ♦ a \$112 million gain from the sale of its remaining shares in Cameco in 2002
- ♦ a \$69 million gain from the sale of its interests in Saturn Communications Limited and the Saskfor MacMillan Limited Partnership in 2000
- ♦ a \$175 million gain from the sale of shares in Wascana Energy Inc. and the sale of the Bi-Provincial Upgrader in 1998
- ♦ a \$615 million gain from the sale of shares of Cameco, LCL Cable, and ISM in 1996
- ♦ a \$189 million loss from the sale of shares in Cameco in 1992

10. What impact has oil revenue had on the Government's revenue?

Saskatchewan oil trades on the world market. Oil prices fluctuate according to world supply and demand. Since 2001, the world price of crude oil has generally increased substantially.²⁹

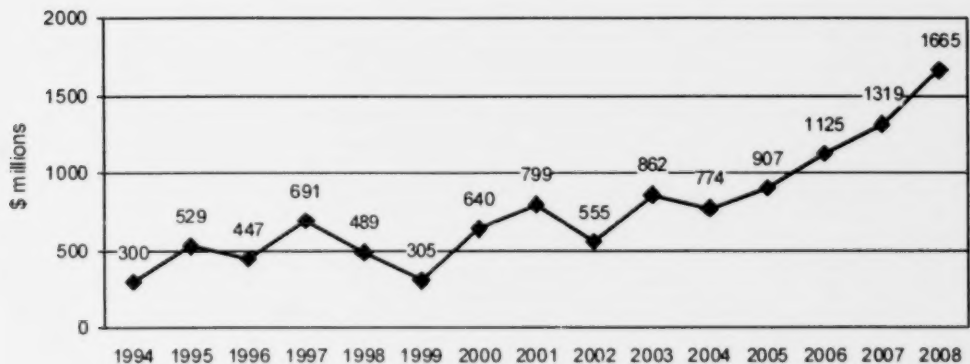
Oil prices are beyond the control of the Government. Increased prices have resulted in considerable increases in the Government's related revenue. Oil revenue is part of own-source (non-renewable resource) revenue.

Graph G shows substantial growth in oil revenue since 2004 with significant year-to-year fluctuations from 1994 to 2004.

²⁹ Government of Canada. *Analysis in Brief - Boom Times: Canada's Crude Petroleum Industry*, Statistics Canada, Ministry of Industry (2006). p.6.

Graph G

Oil revenue from 1994 to 2008



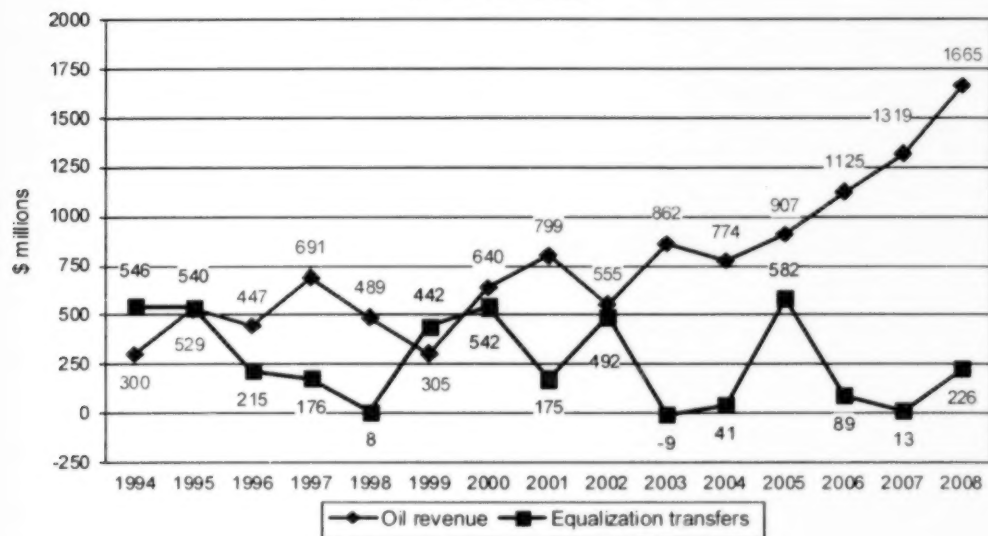
Changes in Saskatchewan's oil revenue have resulted in offsetting changes in revenue from federal equalization transfers. The Federal Government uses a formula to calculate equalization transfers. The Federal Government includes 33 revenue sources to calculate a provinces' revenue-generating capacity. About one-third of these sources directly relate to oil and gas revenue. For provinces with significant oil and gas revenue, increases in this revenue are almost completely offset by decreases in equalization transfers.³⁰

Graph H shows that the increases in Saskatchewan's oil revenue have decreased the amount of federal equalization transfers it has received. For inter-provincial comparisons, see Graph 13.

³⁰ *Equalization: Implications of Recent Changes*, Michael Holden, Parliamentary Information and Research Service, January 2006.

Graph H

Oil revenue and equalization transfers
from 1994 to 2008



In 2005 and again in 2008, the Government received one-time equalization transfers of \$582 million and \$226 million, respectively. For further detailed information on trends in the Government's revenue, see Appendix 4.

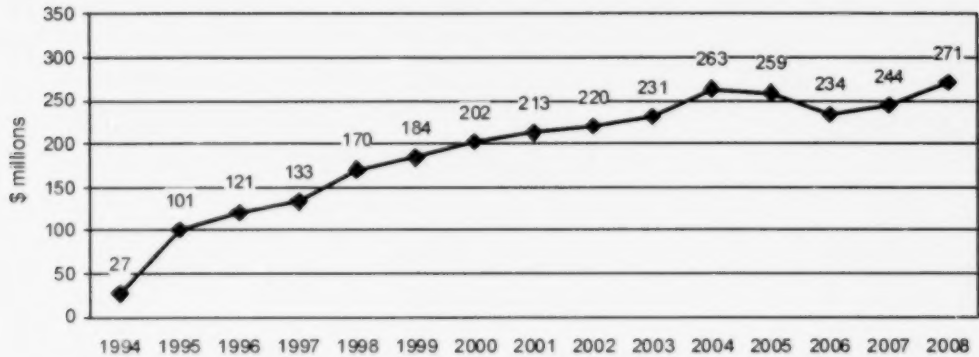
11. What impact have gaming operations had on the Government's finances?

Graph I shows that since 1994, the Government has earned an increasing amount of income from gaming.³¹ From 1994 to 2008, gaming income increased from \$27 million in 1994 to \$263 million in 2004, decreased slightly to \$234 million in 2006, and then recovered to \$271 million in 2008.

³¹ The income from gaming is the gaming revenue after deducting expenses for gaming operations.

Graph I

Income from gaming from 1994 to 2008

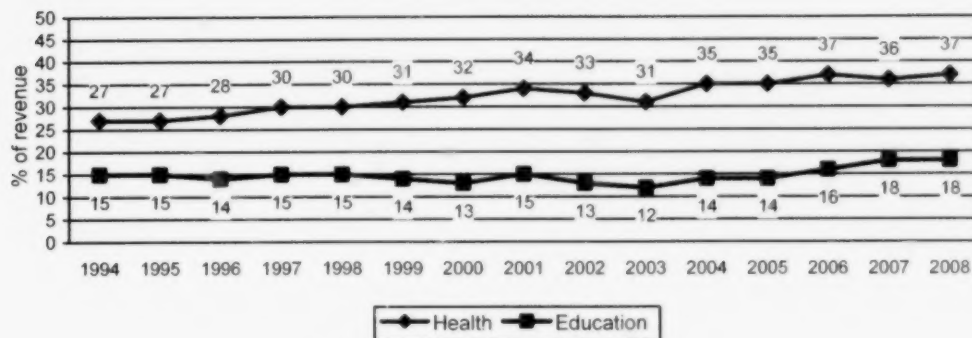


12. What are the trends in the government's spending (by key sector)?

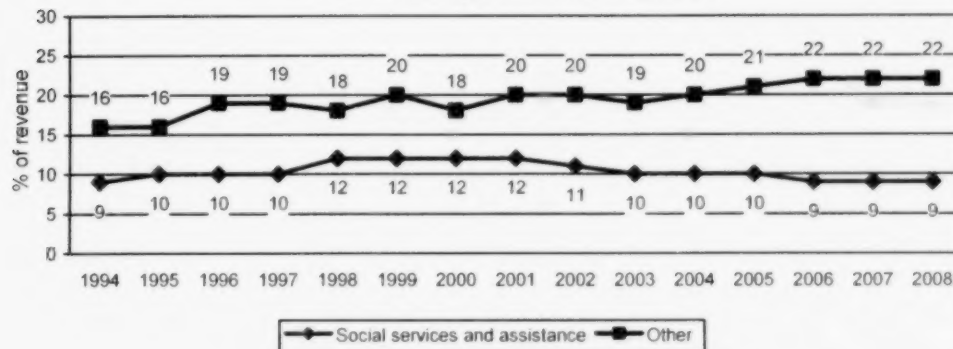
Graphs J to L look at fifteen-year spending trends for the Government's major services -- health, education, social services and assistance, agriculture, and other. Graphs J and K show health costs increasing faster than education, social services and assistance, and other costs. Graph L shows agriculture costs fluctuate significantly from 1994 to 2008. Question 13 explains why agriculture costs fluctuate.

Also, in Saskatchewan, the Government does not pay the full cost of education. The relationship between Saskatchewan school boards and universities and the Government differs from other provinces. Unlike most provinces, the Saskatchewan school boards and universities are not part of the Government's summary-level financial reports. As a result, the Government's education costs represent only monies that the Government provided to the education sector each year.

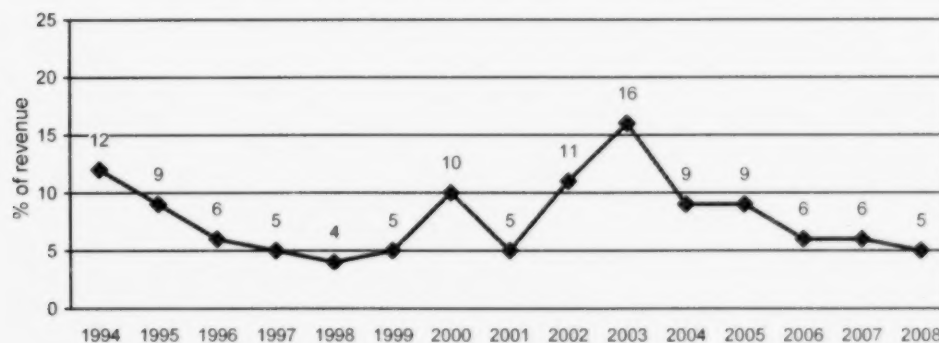
Graph J The Government's health and education costs as % of total expense from 1994 to 2008



Graph K The Government's social services & assistance and other costs as % of total expense from 1994 to 2008

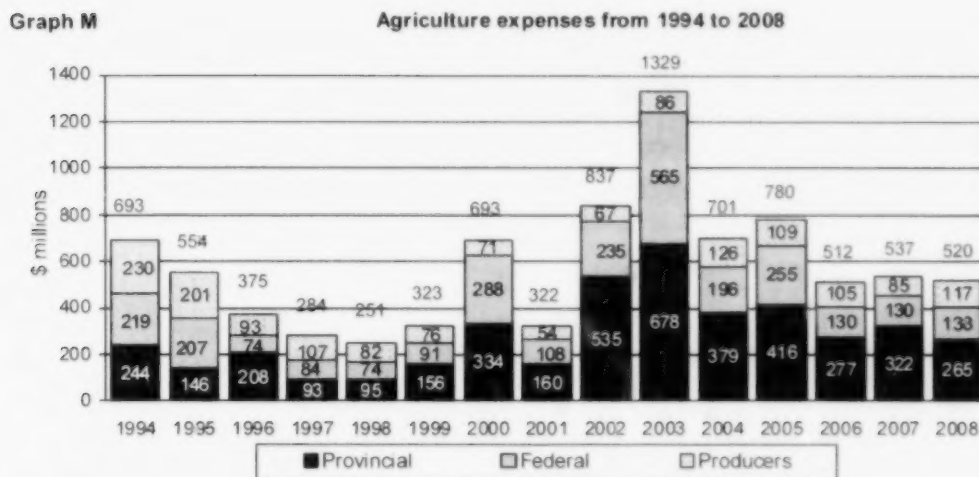


Graph L The Government's agriculture costs as % of total expense from 1994 to 2008



13. Why do agriculture expenses fluctuate so much?

Graph M shows fluctuations in the Government's agricultural expenses from 1994 to 2008. The graph also shows that producers (through premiums) and the Federal Government (through transfers) help pay for these expenses.



Agriculture expenses fluctuate for two main reasons.

First, the Government's key agricultural program, crop insurance, is designed in such a way that the Government's annual spending will fluctuate because it depends on producers' eligibility in that year. Eligibility criteria are typically based on levels and quality of production and price of the commodity. Weather affects production levels and quality. Commodity world prices reflect world supply and demand as well as trading subsidies paid by foreign governments.

Second, for agricultural services cost-shared with the Federal Government, what the Government records as revenues and expenses is based on which government is responsible to administer the program. Either the Federal Government or the

Saskatchewan Government can administer cost-shared services.³²

For example, if Saskatchewan administers the service, as with crop insurance, the Government's Summary Financial Statements include the total cost of the program. That is, the statements include money from the Federal Government and producers as revenue and all costs to deliver the program as expenses.

As such, the Government's agriculture expenses include the full cost of crop insurance (i.e., 2008: \$25 million, 2007: \$70 million, 2006: \$-74 million, 2005: \$143 million, 2004: \$157 million, 2003: \$488 million, 2002: \$214 million, 2001 and 2000: combined cost \$15 million).

If on the other hand, the Federal Government administers the service, as with the Canadian Agricultural Income Stabilization (CAIS) Program, the Saskatchewan Government's agriculture expenses include only the Government's share of the cost of the program.

14. How much are the Government's total liabilities including liabilities of government business enterprises?

Graph N provides a breakdown of the Government's total liabilities including liabilities of government business enterprises (gross liabilities) from 1994 to 2008. The Government's liabilities include bonds and debentures, unfunded pension liabilities, and other liabilities. Other liabilities include accounts payable, accrued interest, and unpaid claims for government insurance services.³³

Graph N shows that since 1994 amounts owed for bonds and debentures decreased by \$3.7 billion to \$10.5 billion. This amount has decreased by only a modest amount since 1998. In 2008, the Government repaid about \$1.1 billion of bonds and debentures

³² Per officials from the Ministry of Agriculture, the governments decide which level of government administers the service based on which level can administer the program more efficiently (e.g., lower costs, or has experience in administering similar services).

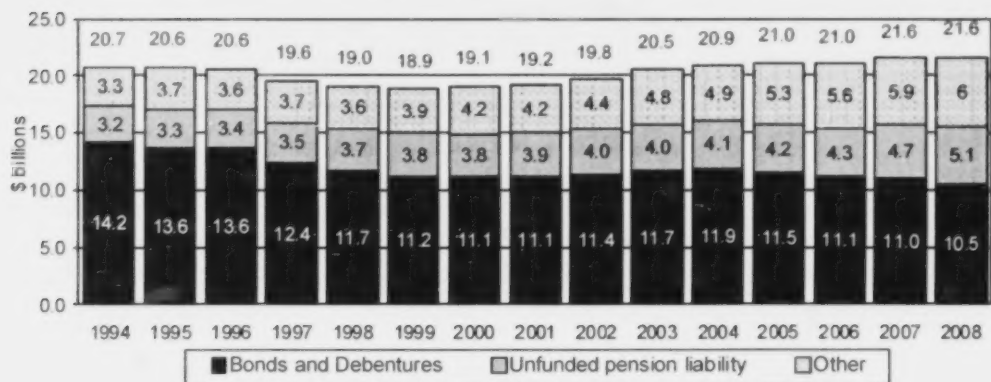
³³ Liabilities are amounts owed to individuals and corporations outside of the Government. As such, Graph N excludes amounts owed by the General Revenue Fund to the Liquor and Gaming Authority. These amounts (in millions) are: 2008 – \$46, 2007 – \$38, 2006 – \$40, 2005 – \$44, 2004 – \$37, 2003 – \$23, 2002 – \$32, 2001 – \$13, 2000 – \$674, 1999 – \$364, 1998 – \$386, 1997 – \$451, 1996 – \$197, 1995 – \$241, and 1994 – \$140.

and borrowed an additional \$0.6 billion. Since 1994, other liabilities increased by \$2.7 billion to \$6 billion in 2008.

Since 1994, amounts owed for unfunded pension liability increased by \$1.9 billion to \$5.1 billion in 2008. As Chapter 13 of our 2006 Report - Volume 3 states, the Government plans to pay retirement benefits to pensioners when due rather than setting aside money beforehand.

On an overall basis, gross liabilities for 2008 remained unchanged from the prior year and increased slightly from 1994 to 2008.

Graph N The Government's total liabilities as at March 31 from 1994 to 2008 (including liabilities of Government business enterprises)



15. How has Saskatchewan's credit rating changed over the last fifteen years?

Three major bond-rating services routinely rate the Saskatchewan Government's creditworthiness. They are Dominion Bond Rating Service, Moody's Investors Service, and Standards & Poor's. Each has slightly different rating categories and criteria.³⁴

Each of these services has given the Government better credit ratings in recent years. Graph O shows the Government received better credit ratings from Dominion Bond Rating Service in various years and most recently in November 2006. Its rating improved

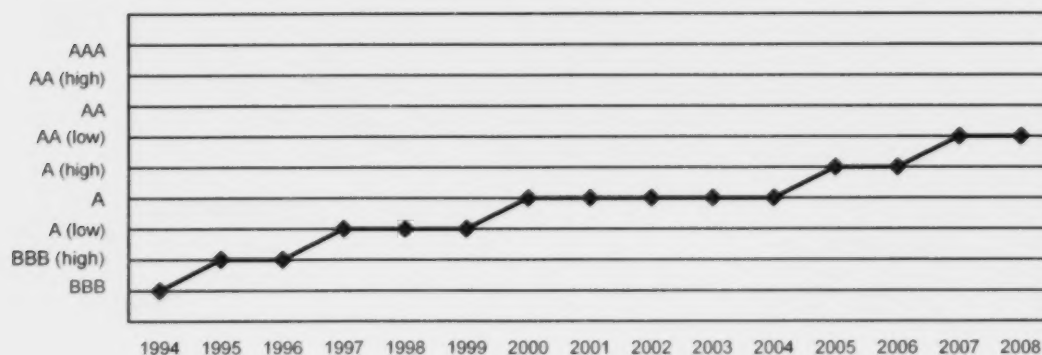
³⁴ Dominion Bond Rating Services, www.dbrs.com; Moody's Investor Service, www.moodys.com; and Standards & Poor's, www2.standardandpoors.com. (Accessed July 16, 2008). The rankings reflected in the graphs are for long-term debt (i.e., bonds and debentures).

from BBB in 1994 to the current high AA (low) in 2007. It remained unchanged in 2008.

Standards & Poor's last upgraded the Government's credit rating in August 2006 and Moody's Investors Service did so in November 2006. A higher credit rating means the Government can borrow at a lower cost and have more sources of borrowing.

Graph O

**Dominion Bond Rating Service -
credit ratings from 1994 to 2008 for Saskatchewan**



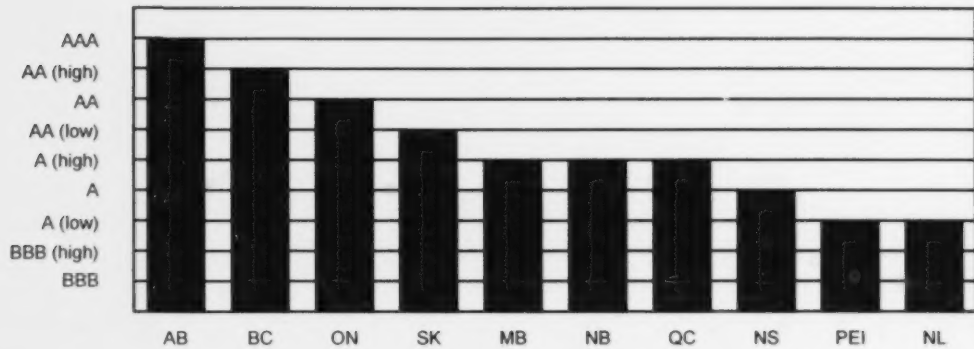
16. How did the Saskatchewan Government's credit rating compare to the credit ratings of the other provincial governments?

Graphs P to R compare Saskatchewan's credit rating for long-term debt (i.e., bonus and debentures) to that of other provincial governments for each of the three credit rating services. The information in the graphs is based on the most recent credit rating available at the time of writing this report.

These graphs also show that Saskatchewan's credit rating was lower than those of Alberta and British Columbia and similar to Ontario and Manitoba. For at least two of the three credit rating services, Saskatchewan surpasses the credit ratings of New Brunswick. For all three credit rating services, Saskatchewan surpasses the credit ratings of Quebec, Nova Scotia, PEI, and Newfoundland and Labrador. Saskatchewan's ranking relative to its counterparts had improved to recent years but remained unchanged from the prior year.

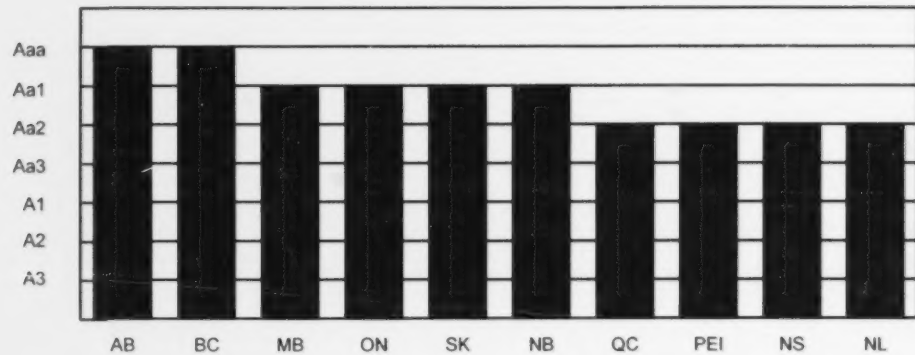
Graph P

Dominion Bond Rating Service -
credit ratings as at July 16, 2008 by province



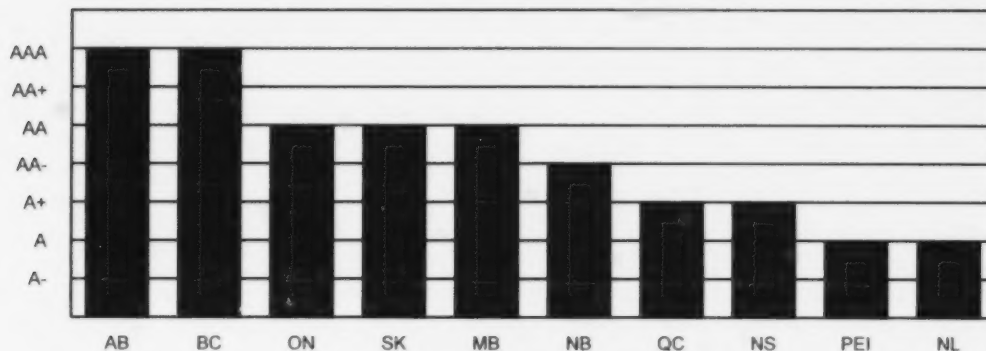
Graph Q

Moody's Investors Service -
credit ratings as at July 16, 2008 by province



Graph R

Standard and Poor's -
credit ratings as at July 16, 2008 by province



17. How did the size of Saskatchewan's population compare with other provinces?

At April 1, 2008, Saskatchewan's estimated population was 1,010,146.³⁵

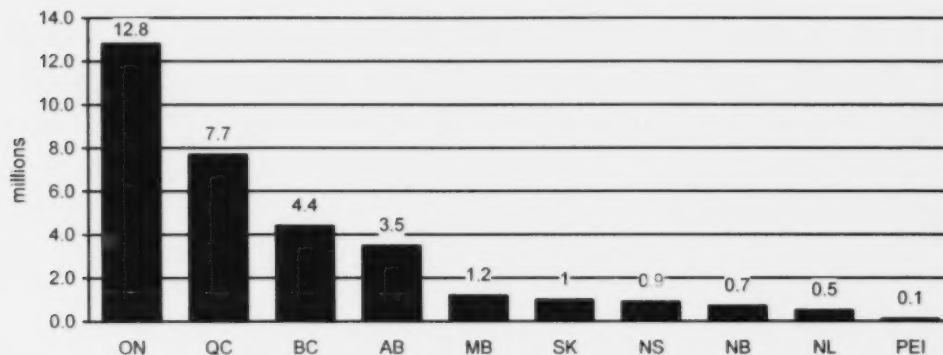
As shown in Graph S, Saskatchewan's population has remained around one million – the sixth largest in Canada.³⁶ Its population continued to be comparable to Manitoba and to two of the four Maritime provinces. Only the provinces of British Columbia, Alberta, and Ontario showed population growth from 2006 to 2007.

³⁵ Government of Saskatchewan. *Saskatchewan Bureau of Statistics Quick Facts*. <http://www.stats.gov.sk.ca/> (Accessed July 16, 2008).

³⁶ Statistics Canada CANSIM (Accessed July 16, 2008).

Graph S

Population as at July 1, 2007 by province



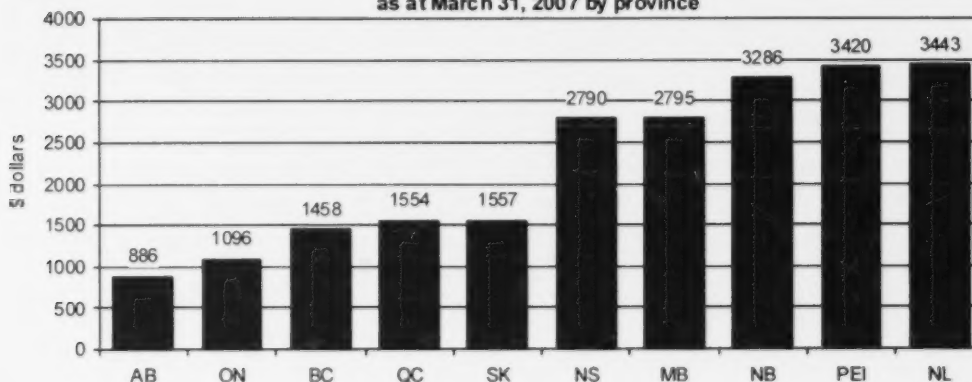
18. How did Saskatchewan's Federal Government transfers per capita compare with other provinces?

At March 31, 2008, Saskatchewan's Federal Government transfers per capita was \$1,789.

As shown in Graph T, for the year ending March 31, 2007, Saskatchewan's Federal Government transfers per capita was the fifth lowest and similar to British Columbia and Quebec.³⁷ Saskatchewan's ranking is consistent with the prior year.

Graph T

Federal Government transfers per capita
as at March 31, 2007 by province



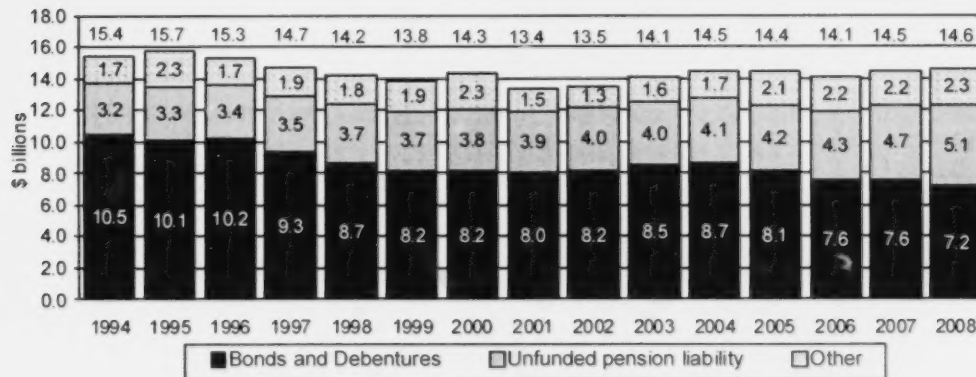
³⁷ Ibid.

19. What are the trends in the Government's total liabilities excluding liabilities of Government business enterprises?

Total liabilities reflect the amount a government owes. The Government's total liabilities include bonds and debentures, unfunded pension liabilities, accounts payable, accrued interest, and unpaid claims for government insurance services. Total liabilities do not include liabilities of government business enterprises.

Graph U shows how much the Government owed each year over a fifteen-year period. The graph shows that total liabilities have remained relatively constant. Total liabilities decreased by \$0.8 billion from 1994 to 2008. During this fifteen-year period, increases in amounts owed for unfunded pension liabilities partially offset decreases in amounts owed for bonds and debentures.

Graph U The Government's total liabilities as at March 31 from 1994 to 2008 (excluding liabilities of Government business enterprises)

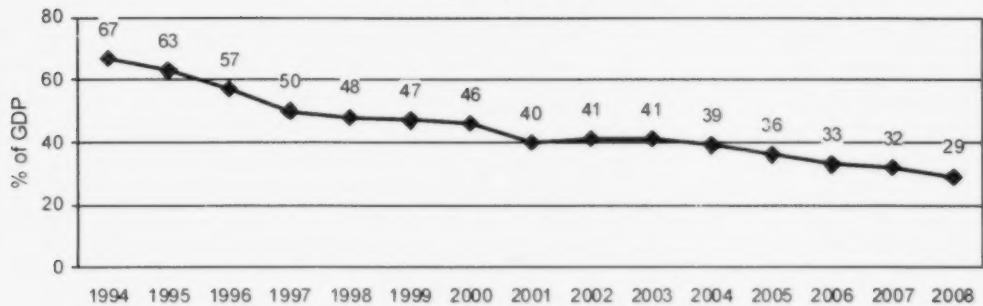


Graph V shows a steady downward trend of total liabilities as a percentage of provincial GDP. The downward trend suggests the Saskatchewan economy can better sustain the Government's borrowings.

Graph V shows that the total liabilities to GDP ratio at March 31, 2008 was 29%, down from a ratio of 32% in the previous year. Because total liabilities have remained relatively constant over the fifteen-year period ending March 31, 2008, the decline is the result of the growth in the provincial economy.

Graph V

The Government's total liabilities (excluding liabilities of Government business enterprises) as % of GDP from 1994 to 2008



Net debt is a more meaningful indicator of financial condition than total liabilities (see Graph 4 for further detail). Unlike net debt, liabilities do not take into account financial assets available that could be used to repay liabilities.

20. How are "tax expenditures" accounted for in the Government's financial statements?

The Government commonly refers to reductions of taxes (i.e., individuals or corporations) as "tax expenditures."³⁸ The Government, for public policy purposes, may decide to allow certain taxpayers special exclusions, deductions, preferential tax rates, or credits. "Tax expenditures" are not expenses or expenditures and, appropriately, are not recorded in the financial statements.

For example, the Government provides small businesses with a lower income tax rate, a fuel tax exemption on farm-use diesel fuel, and a sales tax exemption on light used vehicles. In its 2008-09 Budget, the Government estimated that given these decisions it expects to forego revenue of about \$131.8 million, \$110.1 million and \$39.8 million, respectively. It does not record these amounts as revenue or expense in the Summary Financial Statements.

³⁸ Government of Saskatchewan. (March 2008). *Saskatchewan Provincial Budget 2008-09 Ready for Growth, Budget Summary*, Regina. pp. 46 – 50.

Appendix 3 – Methodology and data limitations

Methodology used

This report uses financial indicators developed by The Canadian Institute of Chartered Accountants (CICA) to assess the finances of governments.³⁹ Financial indicators, expressed as ratios or trends, provide a picture of what has occurred over a period of years and facilitate comparisons.

The CICA has grouped its indicators into three categories that measure a government's financial health in the context of its overall economic and financial environment. The indicators measure:

- ♦ whether a government is living within its means (sustainability)
- ♦ how well a government can respond to rising commitments by either expanding its revenue or increasing its net debt (flexibility)
- ♦ how much a government relies on revenue sources beyond its direct control or influence, such as money from the Federal Government (vulnerability)

Where possible, this report provides fifteen years of indicator data. Providing data for many years allows readers to observe the general direction of the indicators over time and identify trends. Data for a specific year provides a snapshot of the indicators, whereas trends provide information that is more meaningful.

This report also compares Saskatchewan's finances for selected indicators to those of other provinces. Prior year data is used (i.e., for the year ending March 31, 2007) because current year data is not available from most other provinces at the time of writing this report.

Source of data and its limitations

The financial indicators in this report use key financial information from provincial governments' audited summary financial statements. Economic information is obtained from Statistics Canada and the Saskatchewan Bureau of Statistics. Comparative data presented is not adjusted for inflation.

³⁹ *Indicators of Government Financial Condition*, CICA, 1997. This research report is available from the CICA website at www.cica.ca. The CICA is in the process of updating this report. In December 2007, the CICA published a

For the following reasons, data from other provinces is not fully comparable.

First, in some cases, other provincial governments record their financial activities different from Saskatchewan. Where public information is available, we have adjusted the financial information of those provinces to conform to Saskatchewan. However, information is not always publicly available.

Second, how a provincial government organizes itself can affect what financial activities are included within its summary financial statements. For example, some provinces include the financial activities of school boards and universities in their summary financial statements, whereas Saskatchewan does not. It is not feasible or appropriate for us to adjust data for these types of differences.

Third, on occasion, the financial information of other provinces may not be reliable.⁴⁰

Furthermore, it is not feasible to adjust data for differences in the characteristics of provincial economies. For example, own-source revenue for some provincial governments (such as Alberta and Saskatchewan) includes significant revenue from non-renewable resources such as oil and gas.

Statement of Principles: Government Financial Indicators. The indicator measures in this statement are generally consistent with the 1997 research report.

⁴⁰ For the year ending March 31, 2007, the auditor's report on the summary financial statements of the Government of Manitoba cites problems. For the Government of Manitoba, the audited financial statements do not include the financial activities of public school divisions because sufficient information was not available.

Appendix 4 – Detailed revenue and expense – 1991 (unaudited) to 2008

(in \$ millions)

54

Revenue	1991 ¹	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Taxes	1,988	2,163	2,276	2,536	2,643	2,854	3,125	3,116	3,155	3,224	3,203	3,023	3,369	3,399	3,590	4,117	4,486	4,735
Federal government transfers	1,603	1,706	1,447	1,488	1,512	1,046	853	675	1,088	1,553	1,029	1,518	1,414	1,290	1,995	1,459	1,552	1,807
Non-renewable resources	423	323	393	453	718	673	907	781	622	943	1,293	903	1,244	1,141	1,474	1,721	1,694	2,325
Income from government enterprises	362	266	249	310	313	590	549	568	652	582	642	426	453	734	843	718	701	943
Other	932	952	948	775	899	1,260	791	983	784	909	924	1,070	996	1,121	1,318	1,451	1,431	1,921
Total Revenue	5,308	5,410	5,313	5,562	6,085	6,423	6,225	6,123	6,301	7,211	7,091	6,940	7,476	7,685	9,220	9,466	9,864	11,731
Expense	827	1,183	950	693	554	375	284	251	323	693	322	837	1,329	701	780	512	537	520
Agriculture	143	107	104	145	160	158	148	152	160	158	176	204	236	240	231	295	318	352
Community development	1,053	1,147	1,299	1,285	1,338	1,305	1,224	1,175	1,111	1,026	947	891	894	928	903	841	817	819
Debt charges (interest costs)	86	125	81	79	79	148	132	96	110	109	150	141	109	138	277	371	223	258
Economic development	847	871	883	849	874	828	853	855	886	901	1,019	987	989	1,062	1,208	1,414	1,692	1,787
Education	184	20	87	151	116	192	142	119	202	168	149	156	243	186	154	174	217	240
Environment and natural resources	1,659	1,641	1,614	1,553	1,622	1,623	1,682	1,761	1,931	2,174	2,223	2,424	2,558	2,745	2,944	3,222	3,345	3,651
Health	262	274	248	178	187	195	190	203	230	262	266	299	303	317	319	356	399	434
Protection of persons and property	446	507	547	550	584	588	586	700	747	785	783	784	794	792	821	827	843	900
Social services and assistance	283	242	201	212	228	236	248	273	272	273	303	337	328	291	317	329	368	413
Transportation	270	969	199	148	202	212	191	212	260	256	292	363	347	385	422	446	531	484
Other	6,060	7,086	6,213	5,843	5,944	5,860	5,680	5,797	6,232	6,805	6,630	7,423	8,130	7,785	8,376	8,787	9,290	9,858
Total Expense	7,752	-1,676	-900	-281	141	563	545	326	69	406	461	-483	-654	-100	844	679	574	1,873
Annual surplus (deficit)																		

¹ 1991 was the first year that the Government produced Summary Financial Statements. Information prior to 1991 is not available.

Appendix 4 – Detailed revenue and expense – 1991 (unaudited) to 2008

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¹ 1991 was the first year that the Government produced Summary Financial Statements. Information prior to 1991 is not available.

Appendix 5 – Listing of graphs

The following lists graphs included in the body of this report.

- 1 The Government's annual surplus or deficit from 1994 to 2008
- 2 The Government's total spending by type as at March 31, 2008
- 3 Saskatchewan's GDP and the Government's net debt from 1994 to 2008
- 4 The Government's net debt as % of provincial GDP from 1994 to 2008
- 5 Net debt as % of GDP as at March 31, 2007 by province
- 6 The Government's own-source revenue as % of GDP from 1994 to 2008
- 7 Own-source revenue as % of GDP as at March 31, 2007 by province
- 8 Net book value of tangible capital assets as a % of cost of tangible capital assets from 2001 to 2008
- 9 The Government's interest costs as % of total revenue from 1994 to 2008
- 10 Interest costs as % of total revenue as at March 31, 2007 by province
- 11 Revenue from Federal Government transfers from 1994 to 2008
- 12 Federal Government transfers as % of Saskatchewan Government own-source revenue from 1994 to 2008
- 13 Federal Government transfers as % of own-source revenue as at March 31, 2007 by province

The following lists graphs included in Appendix 2 of this report.

- A Percentage of change from 1994 to 2008 of revenue, expense, CPI, & GDP
- B Net debt per capita for 2007 by province
- C Annual % change in Saskatchewan's GDP, 1994 to 2008
- D December 31, 2007 GDP by province
- E December 31, 2007 GDP per capita by province
- F Percentage of change of revenue & expense from 1994 to 2008
- G Oil revenue from 1994 to 2008
- H Oil revenue and equalization transfers from 1994 to 2008
- I Income from gaming from 1994 to 2008
- J The Government's health and education costs as % of total expense from 1994 to 2008
- K The Government's social services & assistance and other costs as % of total expense from 1994 to 2008
- L The Government's agriculture costs as % of total expense from 1994 to 2008
- M Agriculture expenses from 1994 to 2008
- N The Government's total liabilities as at March 31 from 1994 to 2008 (including liabilities of Government business enterprises)
- O Dominion Bond Rating Service – credit ratings from 1994 to 2008 for Saskatchewan
- P Dominion Bond Rating Service – credit ratings as at July 16, 2008 by province

Understanding the Finances of the Government

- Q Moody's Investors Service – credit ratings as at July 16, 2008 by province
- R Standards and Poor's – credit ratings as at July 16, 2008 by province
- S Population as at July 1, 2007 by province
- I Federal Government transfers per capita as at March 31, 2007 by province
- U The Government's total liabilities as at March 31 from 1994 to 2008 (excluding liabilities of Government business enterprises)
- V The Government's total liabilities (excluding liabilities of Government business enterprises) as % of GDP from 1994 to 2008

